H.J. Heinz Company 1987 Annual Report.

Henry J. Heinz II: A Eulogy for an Uncommon Man.

Chairman Henry J. Heinz II was in the 56th year of service to what he liked to refer to as "the old firm," when he died on February 23, 1987 at the age of 78. Characteristically, he attended both the January board and executive committee meetings, although he was in rapidly deteriorating health, such was his dedication to duty.

Mr. Heinz served as president and chief executive officer from the death of his father, Howard C. Heinz, in 1941, until he became chairman in 1965. Thereafter, while actively playing a management role, his main energies were directed toward philanthropy. He presided over the distribution of more than $300 million to educational, cultural, health, wildlife preservation, urban renewal and nutritional programs that enriched the lives of millions in his native Pittsburgh and elsewhere. His eulogizers could, therefore, quite honestly point to his as a life of continuing generosity to good causes.

To three generations of Heinz men and women, "the Chairman" was a connecting link with the company's beginnings. His presence served as a reminder that traditional company values—*quality products, fair business practice, brand reputation*—are sacred and inviolable. The preservation of these values in his name appeals to his colleagues as the most fitting of all memorials.

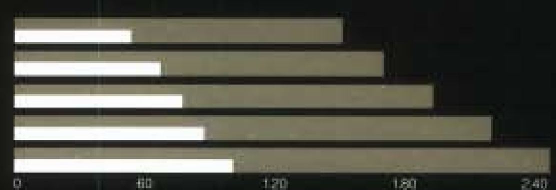
Highlights.

H.J. Heinz Company and Consolidated Subsidiaries

(dollars in thousands except per share data)	*1987*	*1986*	*1985*
Sales	$4,639,486	$4,366,177	$4,047,945
Operating income	592,985	532,583	474,598
Net income	338,506	301,734	265,978
Per common share amounts:			
Net income	$ 2.47	$ 2.20	$ 1.93
Dividends	1.00½	.87½	.77½
Book value	10.81	10.17	8.98
Capital expenditures	$ 184,730	$ 206,331	$ 158,830
Depreciation expense	99,218	85,524	78,833
Net property	1,036,760	923,520	759,708
Cash and short-term investments	$ 564,676	$ 405,255	$ 346,485
Working capital	822,059	704,479	686,955
Total debt	876,620	540,588	463,413
Shareholders' equity	1,392,949	1,360,007	1,230,454
Average number of common shares outstanding	131,665,217	134,125,804	136,102,374
Current ratio	1.79	1.77	1.91
Debt/invested capital	38.6%	28.4%	27.4%
Pretax return on average invested capital	29.5%	31.0%	30.5%
Return on average shareholders' equity	24.6%	23.3%	22.6%

Return on Average Shareholders' Equity
(in percent)

Dividends and Earnings per Common Share
(in dollars)
Dividends
Earnings per share
Five-year compound growth: Dividends 16.5%, Earnings per share 12.5%



To Our Shareholders.

Dr. Anthony J. F. O'Reilly – Chairman, President and Chief Executive Officer

Our 23rd consecutive year of new financial records is confirmed by the highlights digest on the preceding page. Somewhat obscured, but reflected also, are the results of dramatic changes during the year, many of which flowed from your company's quest of low cost operator status in each of its operating subsidiaries. This effort, now entering its third year, added a total of $109 million to our consolidated operating income, much of which was reinvested in marketing support for our products and services in a fiercely competitive world marketplace.

It is proper, and overdue, that Heinz shareholders be introduced to our excellent field managers in this year's annual report. Each of the subsidiary company presidents and managing directors, whose photographs highlight the report, speaks to the present and to the future of his company, setting forth the challenges in his particular market.

When, more than two years ago, I summoned our field managers to the first low cost operator conference, I pointed out that changing competitive and economic conditions called for an examination of every last existing practice with an eye to improvement. They were told that even the most time-sanctified practices were to be scrutinized and, if new, more economical, methods and procedures were available, were subject to total elimination. I bade them to be irreverent of established practice and adventuresome about the future.

As is true of any sweeping mandate, the low cost operator program required time for absorption into the management mentality. Immediate savings were generated in what many at first regarded as an accelerated profit improvement program. When fully understood, however, changes of a more fundamental nature began to occur. Inefficient production facilities and low-margin products were closed out. Marketing strategies were revamped with the objective of achieving more clout for every dollar spent. New product introductions and line extensions of existing products were accelerated. Capital expenditures were more accurately directed to technologies susceptible of higher productivity and less labor intensity. Company managers everywhere squared off against competitive challenge from whatever quarter, marshaling all of their respective resources against such problems as declining rates of inflation, trade concentration, changing consumer demographics and direct competitive challenge. What was initially regarded, then, as stepped-up profit improvement evolved into the creation of a new entrepreneurial spirit within the universe that is Heinz. Viewed from another vantage point, what is happening within the company can be seen as the most vigorous kind of preparation for company growth initiatives in the final decade of the 20th Century and beyond.

This year the low cost operator effort saw creation of intra-company task forces, each presided over by a senior corporate officer and peopled with experts drawn from each of our companies. These task forces are foraging for basic change in crucial operational areas—general and administrative expense, manufacturing, sales-marketing and procurement—that are common to all Heinz subsidiaries. In a company that prides itself on granting complete autonomy to its operating subsidiaries, this horizontal integration is itself reflective of a profound corporate culture change, a test of our cherished notions of collegiality. I am happy to say that the program was embraced by an enthusiastic field management.

This concerted effort by Heinz management to reinvent the corporation is being carried out against a backdrop of continuing financial success. During the past decade, our gross profits almost tripled, while our gross profit margin in relation to net sales rose from 33% to 40%.

Our market capitalization expanded more than eightfold, from $680 million to $5.4 billion. An investment in Heinz shares, if dividends were reinvested, increased more than 11 times. At fiscal year end, our balance sheet was stronger than at any time in our 118-year history.

We continue to pursue vigorously an acquisition search for middle-sized companies that fit comfortably into niches within our present structure and that are attuned to ever changing consumer needs. At the same time, we remain adamant in our determination not to dilute the financial interest of present shareholders. The past year saw the purchase for cash of a number of companies at home and abroad that fitted well into strategic planning. Company resources, as reflected in our robust balance sheet, ensure our ability to take advantage of new acquisition opportunities. Acquisition of such companies during the last 10 years cost us $416 million. These properties, at current multiples, are worth $1.3 billion in today's marketplace. Put another way, we bought $3.20 in value for every dollar spent.

Details of marketing developments during the year are set forth in the section that follows. Worthy of comment, however, is the general observation that all Heinz major product lines ended the year at or near historic highs, a result that is reassuring, given the intensified competitive climate that prevailed in the world marketplace. Once again, Heinz increased its outlay for marketing support of its existing and new products to $380 million, as compared with $348 million in fiscal 1986 and $123 million a decade ago. New products and innovative line extensions were introduced, many in the fastest-growing segments of the industry.

We have gone through a period that saw sustained growth in all of the measurements that serve as indicators of management effectiveness. Net sales, net income, earnings per share, return on average invested capital, return on average shareholders' equity, gross profit and total return to shareholders – all of these gauges of management achievement have yielded results that place Heinz on a comparative basis in the top rank of its industry. Wall Street has recognized this performance, according a high price-earnings ratio to our shares.

As for the future – always the concern of an alert management – I believe company shareholders have every right to be optimistic. Our core business is strong and growing, while new products and line extensions multiply in response to consumer needs. We back all of our brands with ever-larger marketing expenditures. We pursue our policy of niche acquisitions with diligence. We are planting the Heinz flag in countries such as The People's Republic of China, the Republic of Korea, and, most recently, in Thailand. And, most importantly, we are using our low cost operator initiatives to prepare our company everywhere for the future. Small wonder, then, that company management attitudes are animated by confidence and a pervasive sense of great expectations.

The continuing support of company shareholders is counted a major resource that is never taken for granted. Management understands that its first loyalty runs to those who have invested funds in our shares, including thousands of Heinz employees at all levels. Our activities to achieve a new era of growth for the company are calculated to nurture this vital management-shareholder partnership.

The Year.

Marketing

Sensitivity to changes in consumers' expectations and lifestyles is always the basis of successful marketing. This is especially true in today's rapidly changing marketplace. Fiscal 1987 found Heinz marketers everywhere alert, adaptable and attentive to consumer needs. We sought out additional customers around the world by entering developing markets, by extending our product lines and by offering a host of new varieties.

The major challenge in the current economic picture remains low inflation, which puts pressure on processors, retailers and service operators to remain competitive by controlling both costs and prices. At Heinz, operating income and profit margins were boosted by major savings achieved through continued aggressive implementation of the low cost operator program.

A substantial portion of these savings was plowed back into marketing support for Heinz products, both established and newly-introduced. This year Heinz invested $380 million in marketing, a 9% increase over last year's expenditure and more than triple the figure of only a decade ago.

Mounting evidence of consumer interest in health and nutrition resulted in steady growth, as Heinz U.S.A.'s Specialty Products Division, for example, provided high quality, low-calorie, nutritious products under the Weight Watchers, ALBA and Chico-San labels.

Heinz U.S.A. continued to set market share and sales records, with ketchup once again leading the field at 55% and baby foods exceeding 20%. Other impressive gains included an all-time record 28% market share for Worcestershire sauce; a record 36% share for Seafood Cocktail Sauce; a leading dollar share position for HomeStyle Gravy; and a 50% increase in dollar sales of Chico-San-brand rice cakes.

Foodservice products resisted stiff price competition and reached new levels of growth. Single-serve ketchup sales hit new records with a 10% increase over the previous year. Vol-Pack ketchup (a three-gallon multi-layer bag) achieved its 11th consecutive year of increased sales, while the new, flexible Pouch Pack ketchup (a replacement for #10 tins) increased volume 32% and distribution began to major fast food chains. Heinz U.S.A. also introduced Pouch Pack mustard for convenience stores.

Both established products and product innovations occupied the attention of Heinz marketing experts, as they focused their efforts on specialized consumer categories. The company's advertising budget remained at approximately the same high level as last year, but great attention was paid to achieving a maximum number of impressions for each advertising dollar spent.

Major product lines were improved and expanded in response to consumer research. Heinz U.S.A. added 18 varieties to its line of Instant Baby Foods, bringing the total to 45. Two new varieties were added to the Saver Size line of juice for babies, and improvements in taste and nutrition were made for Heinz dry cereal for baby. Because half of all parents feed yogurt to their babies, we added a superior line of five strained fruit yogurts. To capitalize on the popularity of regional cooking, Heinz introduced Cajun-style and Mesquite Smoke barbecue sauces. Hickory Smoke 57 Sauce became available, building on the popularity of 57 Sauce, the fastest-growing national brand in 1986. Dieters were offered Chico-San Mini Rice Cakes that have only eight calories each.

Building on the success of last year's market tests, Heinz U.S.A. expanded its central location concept for marketing Weight Watchers products across the nation. This strategy entails the placement of 33 Weight Watchers dry grocery items in single display units in supermarket diet sections. Targeted at Weight Watchers enrolled members, this display concept creates strong shelf impact, thanks to similar packaging graphics. The recent purchase of The Pro-Mark Companies, Inc., producers of Weight Watchers-brand dairy products, expands the Weight Watchers brand mix for Heinz U.S.A., bringing it into the rapidly growing refrigerated section of the supermarket. Pro-Mark's distribution of Weight Watchers-brand dairy products was itself expanded.

Heinz U.S.A. continued to improve its packaging in response to expressed consumer preference. The latest addition to the flagship product line was ketchup in 40-ounce squeezable containers, giving large users an

alternative to the already popular 44-ounce glass keg. The 28-ounce squeezable ketchup bottle was redesigned to facilitate easier handling. In order to ensure consumer safety, we added tamper-evident closures to all ketchup varieties packaged in glass. Heinz U.S.A. achieved another industry first in 1986, when it began marketing relish in plastic bottles.

The Specialty Products Division's acquisitions included the purchase of Near East Food Products, Inc., a manufacturer of flavored rice mixes and other specialty grain products. This firm gives Heinz U.S.A. another foothold in the growing rice business.

Star-Kist's solid white tuna showed a dramatic 13% increase in volume, with market share at a lofty 29.8% high. Star-Kist Foods undertook an aggressive brand development program in its eight major sales areas to strengthen the brand's presence in high-return markets. Extensive public relations efforts were launched to mark the 25th anniversary of the highly successful Charlie the Tuna character.

Operations remained idle, as Star-Kist-Canada continued to work toward a resolution of the impasse with the Canadian government over mutually acceptable testing procedures for tuna quality.

Star-Kist pet food operations maintained a strong presence in the burgeoning cat and dog food market, with 9 Lives canned cat food holding a 24% market share. In its first year as a national brand, the Amoré gourmet line represented 5% of specialty dollar sales. Jerky Treats dog snacks increased total brand volume and held an 11% dollar share of that $350 million specialty market. Meeting consumer demands for variety in canned cat foods, 9 Lives added three flavors to its line, while Amoré introduced three new tastes for the upscale feline.

Ore-Ida took notice of an increased emphasis on convenience and growing microwave ownership, which is projected to include 65-70% of all U.S. households by 1990. Accordingly, the Ore-Ida microwavable potato line was expanded as the company introduced technologically-advanced cartons and trays to promote browning and crisping in a microwave oven. Ore-Ida also introduced Toaster Hash Browns and a line of whole pre-baked potatoes for foodservice customers.

The company concentrated its retail new product activity on value-added and vegetable varieties other than potatoes. A quality line of seven potato-based side dishes, named Special Recipes, entered test market. Reformulated Onion Ringers, introduced in April, 1986, have already become the leading category brand. Foodservice customers gave an enthusiastic reception to Steak Crisp, a 100% beef product covered with a light batter.

Convenience and taste were also on the minds of product innovators at Foodways National, as its Weight Watchers frozen entrees continued to generate vigorous growth. Approximately 36 million consumers in the U.S. buy low-calorie frozen entrees and desserts, making this a gigantic $2.6 billion market. Compared with a 6% volume increase for the frozen entree market as a whole, Weight Watchers varieties achieved a satisfying 28% volume growth.

Weight Watchers frozen desserts extended two of their lines nationally. Candle Lite frozen dinners added six new products to its premium line.

Weight Watchers International surpassed all previous enrollment records, with a 10% increase in the United States and a 6% increase in Europe.

The highly popular Quick Start Plus program was augmented this year with a Self-Discovery plan and New Exercise plan that are expected to increase last year's record-breaking meeting fees by 10%. The At Work program is now offered to employees at more than 3,000 companies.

During the year since its acquisition by Heinz, Cardio-Fitness Corporation increased average membership by 25% at its centers.

Heinz-Canada surmounted changing market conditions to achieve increases in dollar sales and tonnage shipped. In the foodservice market, canned tomatoes scored an impressive 50% sales increase. Heinz regained a leadership share of 40% in the tomato juice market and now enjoys a 24% share of the Canadian market for canned pasta products. Helped by new recipes and packaging for frozen entrees, desserts and salad dressings, the company's Weight Watchers brands registered 47% growth.

Heinz-Canada introduced a new line of specially-formulated products for toddlers. Special recipe barbecue sauces, another innovation, brought regular, Cajun and Mexican flavors to the Canadian public. In

Heinz U.S.A. Accelerates in an Era of Radical Change.

David W. Sculley – Heinz U.S.A.

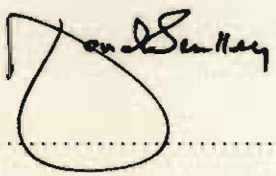
Optimum performance levels require a great degree of insight into markets. And the markets in which the biggest and most profitable division of Heinz sells its products are more fragmented than any other in the U.S. The array of 40,000 products presented on the shelves of big supermarkets reflects exploding demographics as well as the changing tides of consumer choices.

Looking five years or more into the future at these changing markets might seem an excessively hazardous undertaking. But the imaginative pragmatists who manage Heinz U.S.A. can cut through some of the thickets of uncertainty guided by two abiding rules: first, the basic habits of food buyers are the slowest to change; and, secondly, all the trends and patterns in food can be synthesized into a paramount demand by the consumer for *convenience.*

Even though trends in population and income cannot be expected to bring surging demand across the board, Heinz U.S.A. does not look for its growth in a spirit of try-anything brashness. Among our three operating divisions – Consumer Products, Packaged Goods and Specialty Products – are some of the pillars that built the processed food business, pillars that are stronger than ever today.

Our flagship brand, ketchup, continues to enhance its brand leadership position. Despite product proliferation and competitive assaults, market share for ketchup, in grocery and foodservice combined, increased in 1987, as it has year after year.

In Packaged Goods we are strong marketers of vinegar, sauces, pickles, private label soups and baby foods. Our aim: to sustain and maximize cash flow. Although these products may appear to be mature, each generation of consumers finds in them a refreshing new discovery.



Beyond basic utility and convenience in food there is wide scope for optional consumer purchases. For a large section of the American population concerned with health and nutrition, food buying is becoming a more adventurous and analytical activity.

With this in mind, Heinz U.S.A. organized its Specialty Products Division. Mainly by buying and developing efficient small businesses, we now have a division that is growing fast and is profiting from the steady increase in spending, especially for low-calorie upscale products. Brand names include ALBA, Weight Watchers, Chico-San and Near East.

The goal in Specialty Products is a more nimble product group with the capacity to respond fast to a changing market environment. Rice, for example, is a low-calorie food gaining popularity. Unit sales of Chico-San rice cakes jumped 48% in 1987. Near East Foods, a Massachusetts packager of flavored rice, has a number one product in its Original Rice Pilaf Mix.

Most promising of all the Specialty Products acquisitions are the packaged Weight Watchers foods. The purchase of Pro-Mark over a year ago enabled Heinz U.S.A. to enter the dairy case section of supermarkets, most promisingly in the yogurt market. And this year the array of Weight Watchers products is sufficiently large for supermarkets to set a special section for over 30 varieties of Heinz Weight Watchers foods.

In looking ahead to the 1990s, it is not the inevitability of change we are dealing with. It is the desirability of change. With an eye to the future Heinz has trimmed and pruned its functions to become the lowest cost operator. Possessing brand leadership, as well as the best tasting, highest quality products, Heinz U.S.A. is preoccupied day after day with being the most innovative, efficient and flexible food processor in the U.S.

A star on the U.S. national field hockey team, possessor of a cum laude degree in economics from Harvard, David Sculley, president of Heinz U.S.A., has won the Advertising Council's award for coordinating the World Hunger Campaign.

The Surprising Assets of Weight Watchers.

Charles M. Berger — Weight Watchers International, Inc.

Weight Watchers is one of the few brand names ensconced in the Oxford Universal Dictionary. It is the innovator and the pacesetter in ideas about health and fitness, about eating the right foods in the right quantities at the right times. Weight Watchers is also the fastest growing Heinz subsidiary, a true service company full of intangible assets in which imagination makes up for the lack of resources. Measured by any dimension, it is the gold standard of the business.

Historically, Weight Watchers got its impetus in the interchange between the smokestack economies of the industrial world and the emergence of the post-industrial service societies. Its quick acceptance coincided with immense social changes—the ascent of the two-income family, the ubiquity in the work place of the working mother, the need to work smarter, not harder, not to mention the need to think with the mind as well as with emotions and appetites.

Today, Weight Watchers International, from its headquarters in Jericho, Long Island, oversees big, dispersed and complex projects that draw on a wide spectrum of talented people, including scientists, nutritionists, marketers, distributors and publishers. Revenues of Weight Watchers International in 1987, including services and franchises, plus the revenues of products it licenses, nudge close to $1 billion.

Half of that total is generated by food sales. In 1978 Heinz acquired Foodways National, Inc., which makes and markets numerous convenience foods, from microwavable entrees to frozen desserts, under the Weight Watchers label. Subsequent acquisitions of licensees means that most U.S. food categories using the Weight Watchers label are controlled by H.J. Heinz Company.

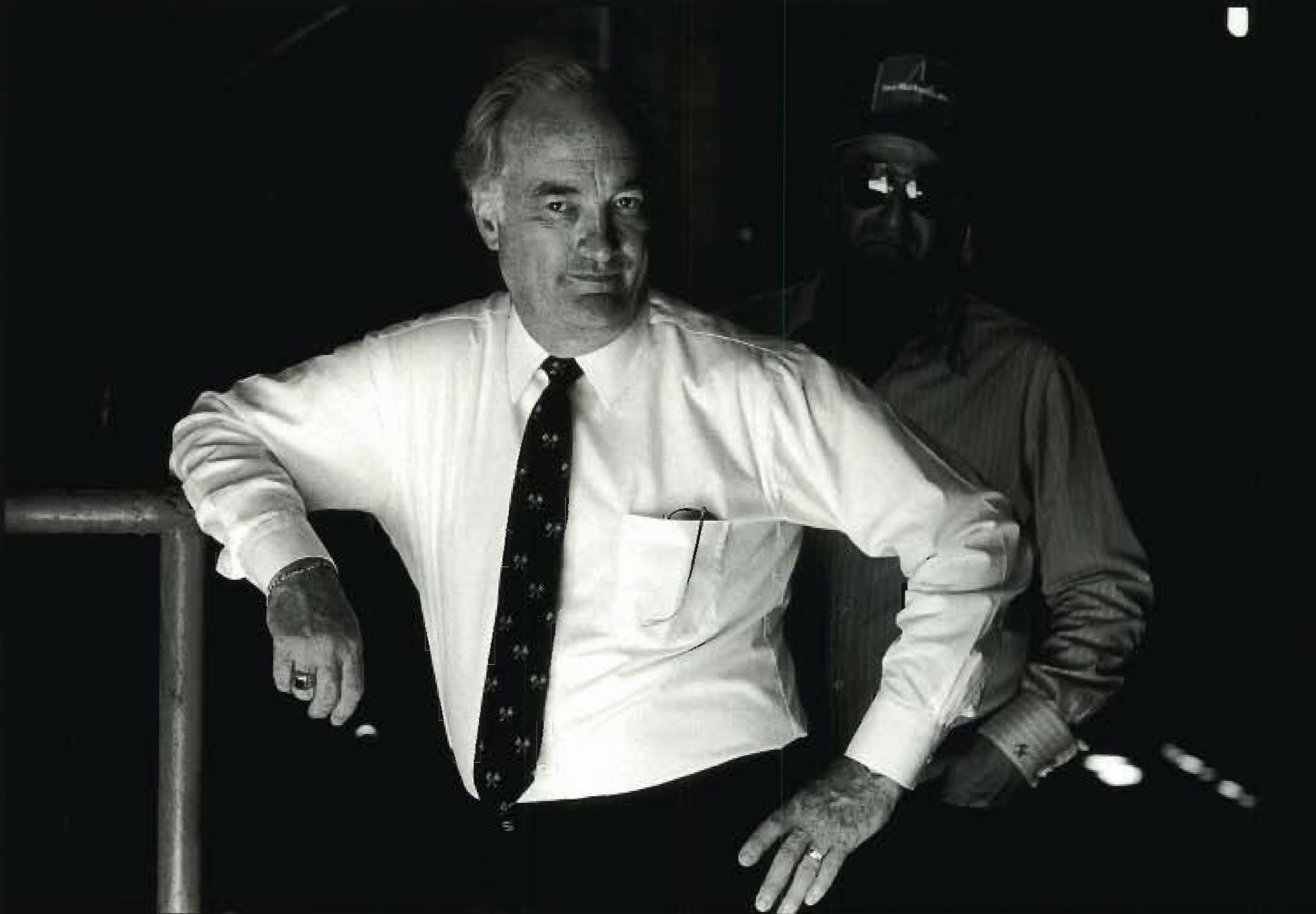
Consider the global dimensions of the business. On any given week across the time zones of 22 countries some 600,000 Weight Watchers members gather at meetings that incorporate sensible exercise classes and discussions of diet changes. In fiscal 1987 the number of registrations at these meetings—headed by the United States—totaled 30 million, 7% ahead of 1986.

A fundamental event in the history of the company was the introduction in 1985 of the Quick Start program. Proper exercise plus 1,400 calories a day mean a loss for most people of one or two pounds a week. That strikes a powerfully responsive chord among people who are concerned about not just looking well but honestly feeling well. Indeed, there are social anthropologists who say that the drive to look and feel better is the modern counterpart to moving west to a better land.

The idea of weight watching is a pattern of behavior on which Weight Watchers has built itself a unique niche. To get where it is, Weight Watchers had to understand the patterns of change in attitudes, customs and emotions. The air is electric with possibilities.

Charles M. Berger, a graduate of Princeton and the Harvard Business School, served in planning and marketing functions for Heinz in Pittsburgh and Britain and was president and managing director in Italy, before becoming president and chief executive of Weight Watchers International, Inc.

Charles M. Berger



Barrier Breaking Makes Star-Kist a Fast Running Leader.

Richard L. Beattie — Star-Kist Foods, Inc.

No enterprise in the Heinz family of big brands has more enticing potential than Star-Kist. Tuna in its familiar canned package has changed little in form and function for generations. Last year we sold about 15 million cases. It is perhaps the ultimate in convenience foods. Just open and serve.

But the real point about tuna is probably blunted by its ubiquity and by those impressive numbers. In societies where the emphasis is on health, fitness and wellness, tuna is an ideal food. It is low in calories, fat and cholesterol. At a time when a big part of the population is moving away from bulky, starchy foods, it is a light meal.

In parts of the world a tuna steak is a prized gourmet offering. Chefs in anything but mundane restaurants use tuna in fish stews and chowders. Operating on the assumption that consumers want not only something "better," but products that are gastronomically and esthetically pleasing, we are doing new things with the big fish.

What is most relevant on the marketing side, we are test marketing tuna in new formulations. American tastes are becoming more diverse. In the food industry in particular, people's preferences are no longer dominated by some great authority, traditional or otherwise. Tuna is a commodity that lends itself to numerous and highly appetizing dishes.

Star-Kist is both driven and drawn by the revolutionary changes taking place in the food industry, as well as in eating habits. Food processing is becoming a truly global environment. What was once a fitful, competitive struggle for the canned tuna market has burst into full transnational battle. Sales campaigns and marketing counteroffensives are being plotted by field generals with the same kind of care that strategists deploy in a hot war.

To counter the price-cutting export drives by canners in the Philippines and Thailand, we invested in new equipment and systems for processing and canning operations in American Samoa and Puerto Rico. Earlier, of course, we closed operations just in time at California's Terminal Island plant. The low-cost Asian exporters were taking over the American private label market.

But even though we saved $5 a case — and turned back a grave competitive assault on our brand — more production savings may be possible. In a long and difficult pursuit, literally to get costs down to the lowest imaginable by the 1990s, we are trying to wed the instruments and processes of high technology to production.

The broad forces cutting across Star-Kist are also present in the exacting pet foods business. (Heinz is strongest in cat foods and we are looking at ways to broaden our product line in dog foods.) Bigger, and certainly faster growing than the soup, coffee or cereal markets, the tonnage warfare in pet foods is visible on the TV screen in every category aimed at every demographic group.

In cat foods our 9 Lives and Amoré brands extend uniquely across every variety and price category. The fight for market share, however, is as vicious as if each brand manager in each big food company had uncovered the last vein in a gold mine.

There are not many existing procedures to be followed in such a business. To stay on top, we have to take calculated risks, sharpen a result-conscious mentality, and, whenever necessary, mount some big attacks of our own to meet the level and nature of the gold diggers' competition.

Dick Beattie, a native of Clairton, Pennsylvania and a graduate of Duquesne and Carnegie Mellon Universities, is a global business traveler who watches closely the changing eating habits of Americans, Europeans and Japanese.

Dick Beattie

VENEZUELA: A STUDY IN SMALL BIGNESS.

JOHN M. WERNER – ALIMENTOS HEINZ C.A.

Through the year 2000 the population of Venezuela will increase at a rate of at least 2% a year. That is a potent and promising number for Alimentos Heinz, for it means that on any future date you care to name, the volume of the food processing industry in this semitropical South American democracy is certain to be larger than it is today. That's an intoxicating prospect. Heinz has established leading consumer franchises and brand loyalty in baby foods and ketchup, in sauces and soups, since we first began local manufacturing back in 1960.

At first glance you might think that fact alone makes Venezuela a 24-carat gold market. After all, the pleasures of populating this nation have helped increase, over the last five years, the tonnage of products sold by Heinz at a compounded rate of 8% annually.

The startling and contradictory fact is that over the same five years Venezuelans have hit the water in a hard landing after surfing on a giant wave of affluence created by the oil price boom. From a state of mind that was exultant about an economy that was boldly growing and dynamic, the Venezuelan consumer is now living in a fairly limited world of currency devaluation and inflation.

Moreover, competition for the food dollar has grown boisterous as adroit and sophisticated local entrepreneurs have entered the arena. There is no escaping the fact that Heinz, despite its emphatic growth, is now operating in a most uncertain Venezuelan economic environment.

In this milieu, Heinz must diversify to provide a broader profit base. Already, we are putting a different face on the company through some promising ventures. First, the successful development of a market for powdered beverages – Kool-Aid and Manzanita (Tang), made under license from General Foods – is an example of a low-cost, high-nutrition product favored by one end of the population. Similarly, products bearing the Frutsi label (nutritional soft drinks and frozen snacks for children) have been well received.

Two new product lines will step up sales considerably. This year will see the start-up of the frozen potato business, a dual marketing effort targeted at both the institutional and consumer markets. By using technology and know-how developed by the Ore-Ida division, we'll provide Venezuelans with another staple for their existing array of food choices. And, the export of tropical fruits to the U.S. and Europe in pulp form, beginning with the banana, is an entirely new direction for our diversification approaches. Local currency devaluation makes other export markets appealing.

We have broken away from conventions to reach our objective of being the lowest cost operator. In our Caracas headquarters and Valencia manufacturing facilities, productivity is now a state of mind. It is the willingness not to be content with the present situation, however good it may be. It is the continuous effort to apply new techniques and new methods. It is, in its widest sense, faith in human progress.

Alimentos Heinz President John Mayes Werner learned Spanish as a boy in Costa Rica, received a Purple Heart while serving with the U.S. Infantry in Vietnam, and more recently received the Francisco de Miranda award from the Venezuelan government.

John Werner

addition to new boil-in-bag and microwave frozen entrees, the Weight Watchers line of products was revised and, in many cases, reformulated.

The past year presented Heinz-U.K. with a unique opportunity to mount a series of promotions and advertising efforts linked to the centenary of the first sale in Britain by founder H.J. Heinz. The year-long program helped the company reach its goal of increased sales and market share in the face of growing retail concentration. Despite a very poor North American bean crop, Heinz baked beans sales reached record levels, with a 44% market share. Heinz achieved new share records of 59% for its canned soups and 41% for the total soup market. A squeezable plastic bottle was added to the ketchup line, enhancing the prospect of improving its already impressive 56% market share. A new-size container for salad cream is expected to consolidate that product's 56% share.

The success of Heinz-U.K.'s pasta products has been given an added boost by the introduction of whole wheat spaghetti, which was created for health conscious consumers. Heinz's brown sauce and baby food lines also saw the national introduction of new varieties. The new Weight Watchers range achieved a 138% sales increase, with share gains reaching 40% for salad dressings.

Companies managed by the Central European office benefited from lower raw materials costs and, assisted by the value decline of the U.S. dollar, were able to hold the line on price levels.

In Germany, Heinz ketchup grew at an impressive 20% rate in a static condiment market. Part of this success was due to the introduction of a squeezable bottle. Heinz-Holland started to sell fruit products specifically designed for use by bakeries and yogurt producers.

Spagheroni, a tomato-based sauce with Italian spices, built on its overwhelming success in Belgium and was well received in Holland, gaining a 30% share of the Italian cooking sauce market in only six months. The product was expanded to France toward the end of this fiscal year.

Our Nadler affiliate in West Germany moved to enlarge its position in a quality, upscale market. It offered a new range of eight salads without preservatives, two fruit jelly desserts and herring fillets packed in portions suited to a growing number of one-person households. Johma's salads captured a 36% share of the Belgian market.

Diminishing inflation and a more stable lira helped Heinz-Italy sustain its continuing growth in the baby food and dietary-therapeutic markets. Plada, as the Italian company is known, saw its strained meats attain a 91% share of market, while holding a 30% share of the baby cereals market. Plada's dietary-therapeutic products are unique within the Heinz group and hold commanding leads in their markets, with Polial biscuits achieving close to 100% of anallergenic category sales.

Misura crackers maintained a robust 38% share of a highly competitive market, along with a 20% share for biscuits. Resistant to market challengers, Misura sweetener and soft drink sales continue to grow, reaching nearly 21% and 45% in their respective shares.

Acquisition of Scaramellini S.p.A., based near Lake Como, which specializes in bagged candies, provided a valuable addition to Heinz-Italy's existing confection business at Fratelli Sperlari in Cremona.

Portugal's first year of membership in the European Economic Community saw increased demand for tomato paste produced by IDAL, our Portuguese subsidiary, among Heinz European affiliates.

Faced with high inflation and increased corporate taxes, Heinz-Australia stepped up its efforts to curb costs and increase volume. Heinz baby food surpassed all sales records with a market share of more than 80%. Soups and beans continued their high levels of performance, while the fisheries division maintained its market position in the competitive tuna market. The Stanley Wine Company share for casks continues to

improve, making it the second leading cask brand in both New South Wales and Victoria.

Heinz-Japan posted a 17% increase in volume sales, which when added to a 3% decrease in prices and continuing improvements in productivity, provided a dramatic upsurge in profitability during the past fiscal year.

Sales of 9 Lives cat food increased by 32%, while its semi-moist counterpart netted a 28% share of that Japanese market, a major increase over last year's 11%.

Heinz-Japan absorbed the operations of Ore-Ida Foods Japan, Inc., to put added muscle behind marketing potatoes.

Seoul-Heinz Ltd. became the new name for our joint venture in Korea. The Heinz name is expected to facilitate our entry into Asian markets as a premium quality, premium price brand. The rapidly growing processed food market in South Korea presents an opportunity for the new venture, which already commands a quarter of the retail margarine market.

Concentrating on dietary deficiencies among the six million children of China's Guangdong Province, Heinz-UFE Ltd. successfully introduced Nutritious Sweet Cereal and Nutritious Savoury Cereal to the Chinese grocery trade and to day care centers.

Frutsi Alimenticia, a joint venture of H.J. Heinz and Citrosuco Paulista, began production in Matao, Brazil and began test marketing five varieties of Frutsi ready-to-drink fruit beverages. This represents the fourth expansion market for Frutsi, which also is marketed throughout Mexico, Venezuela and the Caribbean.

In spite of poor oil revenues and government austerity measures, Alimentos Heinz achieved the best year in sales and profits in the Venezuelan subsidiary's 28-year history. A new orange drink was launched to strong consumer acclaim and will be directed primarily toward the adult soft drink market, which currently stands at $90 million. The Venezuelan subsidiary achieved record sales of baby food and ketchup, with tonnage increasing by about 33%.

Our Caribbean Restaurants subsidiary continued to seek out new sites for its chain of Burger King outlets, with the help of the Burger Bus, a mobile unit placed in cities during special activities or holidays.

Olivine Industries capitalized on the promise of the Heinz baked beans enterprise launched in Zimbabwe last year. The locally grown and processed beans have proved very popular and have gained market share.

Facilities

Just as it strives to adapt to the changing environment of consumer demand, Heinz monitors its physical plant continuously to achieve maximum production at minimum cost. The past year saw accelerated application of this low cost operator principle to worldwide facilities, which resulted in improvement in the quality and consistency of our finished goods.

Heinz U.S.A. officially opened its rice cake factory in Gridley, California. The 10-acre complex doubled the production capability of the original facility that was located in nearby Chico. This highly automated $3.2 million factory handles approximately half of Chico-San's rice cake production.

Heinz U.S.A. invested $3.8 million on more than 100 projects to upgrade the Pittsburgh factory and make the company's baby food and soup businesses more competitive. Improvements included tray-and-film packaging equipment, single-serve pouch filling lines, sauce kitchens, centralized clean-up operations and new inspection systems.

Heinz U.S.A. installed a new filling line at its Tracy, California factory to accommodate plastic ketchup bottles. The facility also added a system for filling three-gallon, multi-layer bags with tomato paste.

The success of Heinz's consolidation of its pickle production facilities in Holland, Michigan allowed the company to dispose of its Lakeview, Michigan salting station.

The Fremont factory celebrated its 50th anniversary by adding production and office space to accommodate its modern processing and laboratory equipment. Originally built as a seasonal operation, the Fremont facility is now one of three Heinz U.S.A. factories with year-round tomato processing.

The Fremont factory kitchen was converted to a computer-controlled, automated system that yields improvements in recordkeeping, product control, general information flow and monitoring of material

Foresight + Flexibility = The Big Payoff in Britain.

John F. Hinch – H.J.Heinz Company Ltd.

The most important change in the markets, the popular press tells Britain, is the return of the "good old competitive buyers' market." Well, the good old competitive spirit has returned, but in food it is anything except "the good old market."

To come at once to the most arresting point about Heinz-U.K: in productivity, performance and competitiveness the company is unique in the food industry. Indeed, it has few, if any, counterparts anywhere in British business. Without much fanfare at all, we have transformed the oldest overseas unit of Heinz into an advanced organization, where every employee is a highly capitalized, highly productive, highly motivated team member with the outlook of an aggressive entrepreneur.

Three years ago, it was clear that Heinz-U.K. was running full speed into the most challenging era of its existence. Discounting by six national retail chains and cooperatives, each possessing its own generic or private labels, had become a permanent condition. For Heinz this meant not only a loss of bargaining power with its biggest customers, but a threat to the clear-cut character, prestige and reputation of its brands. The company was in danger of dropping into a position of secondary importance.

The difference in strategy between Heinz and the food retailers could not be sharper. We have to be preoccupied with profit margins rather than volume. We have to meet the orgies of price cutting. We have to survive in a world where the buyer is a discriminating consumer, not a mere bargain hunter.

By contrast, Britain's food retailers act and think in terms of units. A chain's management judges its performance and charts its future in terms of units and constantly aims for higher unit sales. So powerful is the assault from retailers that the private label knocked out some food processors unable to break with the past.

In 1985, the largest single capital appropriation in company history was necessary to finance the transformation of every Heinz-U.K. function. Large and small structural alterations in manufacturing, distribution and marketing were put into place. Every system and process was reshaped. To integrate the whole business into a finely tuned system, we make heavy use of computers and automation.

In the short run, we needed enormous improvements in productivity to meet the assault of private labels. In the long run, we needed to protect the competitive strength of our major brands – beans, soup, ketchup, pasta, baby foods and salad dressings. Some facts and figures show that the £100 million solution is working in revolutionary fashion.

Productivity, measured in tons per employee, is up almost 70% over the past five years. Investment in technology has enabled us to reduce the number of employees from 5,000 in 1983 to 2,500. At the same time, we have increased or stabilized the market share of our volume lines, while aiming to increase the company's overall gross margin.

The sum total of progress in Britain in just three years is that we have an existing springboard into any facet of a "lowest cost imaginable" program. The people who are transforming Heinz tend to be young, unabashedly brainy, ambitious and aggressive. Nothing hems them in – neither a rigid organization structure nor time-honored operating practices. They are building our future.

A Londoner who spent some years in Pittsburgh as vice president and controller of Heinz U.S.A., John F. Hinch is now managing director of Heinz-U.K.

Ore-Ida's Method is to Sell by the Billion.

Gerald D. Herrick — Ore-Ida Foods, Inc.

Contemplating the future is a serious and workmanlike business at Ore-Ida. Yet, first-time visitors to our Boise, Idaho headquarters are usually surprised by that fact. For, along with emphatically abstract art on the walls and microprocessors on every desk, there is usually a gathering of thoughtful, inquisitive, down-to-earth managers and engineers, whose function is to assess the processed food needs of the future and to make judicious speculations as to how those needs can be met.

These determined seers are not trying to outguess the vagaries of unwritten history. Their goals are quite specific: by setting priorities, gauging probabilities, evaluating progress and determining the proper investment level, they design new products, improve existing ones and, above all, do so at the lowest cost.

Because we sell products in excess of a billion pounds in the most competitive markets, Ore-Ida has built what is probably one of the most efficient food processing systems anywhere. The company's principal raw material—the potato—is the fourth biggest crop on earth after wheat, rice and corn. Our theatre of operations in the frozen potato business extends across North America. Our exports reach even Japan. All of our systems are linked by an advanced electronic communications network that connects research facilities, factories, warehouses and offices.

To maintain our market shares, we must keep abreast of every cost-cutting technical and scientific advance, from the use of cryogenics in automated factories to the effects of genetic engineering on plant life.

At the retail end of the frozen potato business we are number one, with more than a 50% share. In foodservice Ore-Ida has some 12% of the market, selling to numerous fast food chains, such as Burger King, Hardees, Jack-in-the-Box and Roy Rogers. Americans eat six billion pounds of frozen french-fried potatoes a year. Profit margins are gauged by the penny and sometimes the mill.

The road from laboratory to marketplace is strewn with pitfalls that occasionally trap even the most practiced user of research. Therefore, a lot of agonizing appraisals took place within the company before we acquired two companies, Foodways National and Gagliardi Brothers. Today, those companies produce specialty products with a dollar volume that is almost half that of Ore-Ida.

Foodways produces frozen desserts and entrees under license from Weight Watchers. New Weight Watchers products developed over the past three years, including vegetables and finger foods, now account for 60% of Foodways' revenues. In the dieting and health care area, we also market premium-priced entrees under a new brand name, Candle Lite. The dimensions of convenient microwavable entree meals are seductive. Weight Watchers is the fastest growing brand. And one out of every four consumers buys the product, not because of its lower calories but for its well-balanced nutrition.

Frozen food is now entering its most raucously competitive era, with over 400 frozen entrees alone battling for expensive refrigerated shelf space in the supermarket. The shrewdest piece of forecasting coming from our architects of the future is that in the 1990s vacuum-packed and shelf stable products will be in vogue.

Gerald D. Herrick, president and chief executive of Ore-Ida Foods, Inc., studied economics at Utah State University and served as a pilot in the U.S. Air Force. He heads a foundation dedicated to the preservation of wildlife.

Gerald D. Herrick

Plada's Productivity Engine Slips into High Gear.

Luigi Ribolla — Plasmon Dietetici Alimentari S.p.A.

Outside of Italy, Plada may not be a household word. Among Italians, though, businessman and consumer alike, Plada (an acronym for Plasmon Dietetici Alimentari) ranks at the pinnacle of the recognition charts. For the best of all possible reasons, the trade names and products of Heinz-Italy's 80-year-old company are warmly familiar.

Plada is the "locomotive" company that drives our Italian operations. Year after year, it places among the top ten companies in three key categories: operating profit margins, return on capital and improved productivity. Not only have Plada's sales and profits increased substantially with the years, but its physical plant, sales organization and managerial talents are impressively strong.

Consumers hold our products in even higher regard. Start with baby foods, the jewel in Plada's crown, accounting for more than half our revenues. There is hardly an Italian household that has not used our three familiar, trusted brands of baby foods—Plasmon, Nipiol and Dieterba.

Other Heinz-Italy operations are composed of products sharply directed at specific market segments. There is Misura, with a range of health food products extending from whole wheat crackers to soft drinks. Sprint is a fruit juice drink formulated for pre-teenagers. Most Italians have a sweet tooth. So, a substantial slice of the business consists of various chocolates, candies and confections marketed under the Sperlari and Scaramellini brands.

Through acquisitions, brand extensions and licensing, even through joint ventures, we try to use every reasonable idea to get a profitable share of the food market. On any given day you will find us looking at such things as the prospects for Weight Watchers foods and the potential market for chilled and refrigerated products.

Italian consumers, particularly where baby food is concerned, have always been conscious of the need for safety. That is why in all of its manufacturing technology, equipment and sterilizing techniques, Plada has paid the price for superbly equipped plants. Our facilities in Milan, Latina and Ozzano Taro are designed and engineered with the most rigid and precise techniques to prevent contamination of any kind.

But it took the shock of tragedy to weld Italy into its present remarkable concern with food safety. Three incidents in the past year seared their ways into the emotions of food buyers: the Chernobyl accident, which released radioactivity across Europe; serious chemical contamination of the Rhine; and environmental pollution of several Italian water sources.

The consumer's trust in our product was, if anything, strengthened by these unexpected crises. Plada's baby food sales increased substantially, while other firms staggered. Nevertheless, the fact that external forces disrupted the market encouraged us to make big adjustments in our procurement of raw materials, starting with baby foods.

We intend to place an "environmental shield" around our products by developing, with partners, total control of the production of beef, chicken, veal and fruits. Plada's basic objectives, policies, structures and strategies have always been shaped to apply special techniques to special problems. The "environmental shield" is a unique solution that will add value to a premium product.

Educated at Milan's Catholic University, Heinz-Italy's managing director, Luigi Ribolla, taught economics at various colleges in Northern Italy before entering private business 20 years ago. He collects Persian rugs and silver miniatures.

From Eden to Dandenong, Australia is Another World.

Edward S. Churchill Jr. – H. J. Heinz Company Australia Ltd.

To maintain and improve its competitive position in Australia, Heinz must search out and seize new growth opportunities. That is not easy. For there is one unusual thing that characterizes the Australian competitive instinct and makes it so distinctively combative to do business here. Beneath today's modulated exterior there often burns a down under gladiator's ego, as uninhibitedly powerful as that of any buccaneering 19th Century Crocodile Dundee.

New food product introductions in this country at times come full cry at the rate of almost one a week. Heinz has found itself in one recent instance moving in 12 months from being almost alone in virgin territory to a crowded battleground, where some 70 varieties of the same product fought without quarter for a sliver of market share. Generic products and branded goods fight one another in adjacent displays.

So the swiftest, surest way for Heinz to advance is not necessarily to add onto supermarket shelves fresh variants of established products. In Australia it is not just a question of how fast you can go, but of how fast you can go and still keep what you've built up. Growth in our traditional products is muted in a nation almost as big geographically as the United States, but whose population (15 million) is concentrated in five far-apart metropolitan areas – Sydney, Melbourne, Brisbane, Adelaide and Perth.

We have consolidated our leadership positions in canned foods and staples. Market shares in soups, baked beans, baby food, canned tuna, 9 Lives canned cat food and canned spaghetti have been maintained or improved. And tomato sauce, as ketchup is called, is a mature premium product.

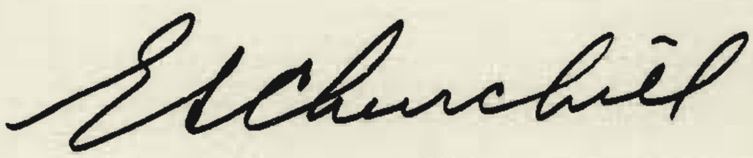
The deepest concern, therefore, for growth is not with the number of new product introductions. It is with the choice of ways to expand and the value of a new business's intrinsic soundness. You might say that in the Antipodes, Heinz aims to grow by doing things differently.

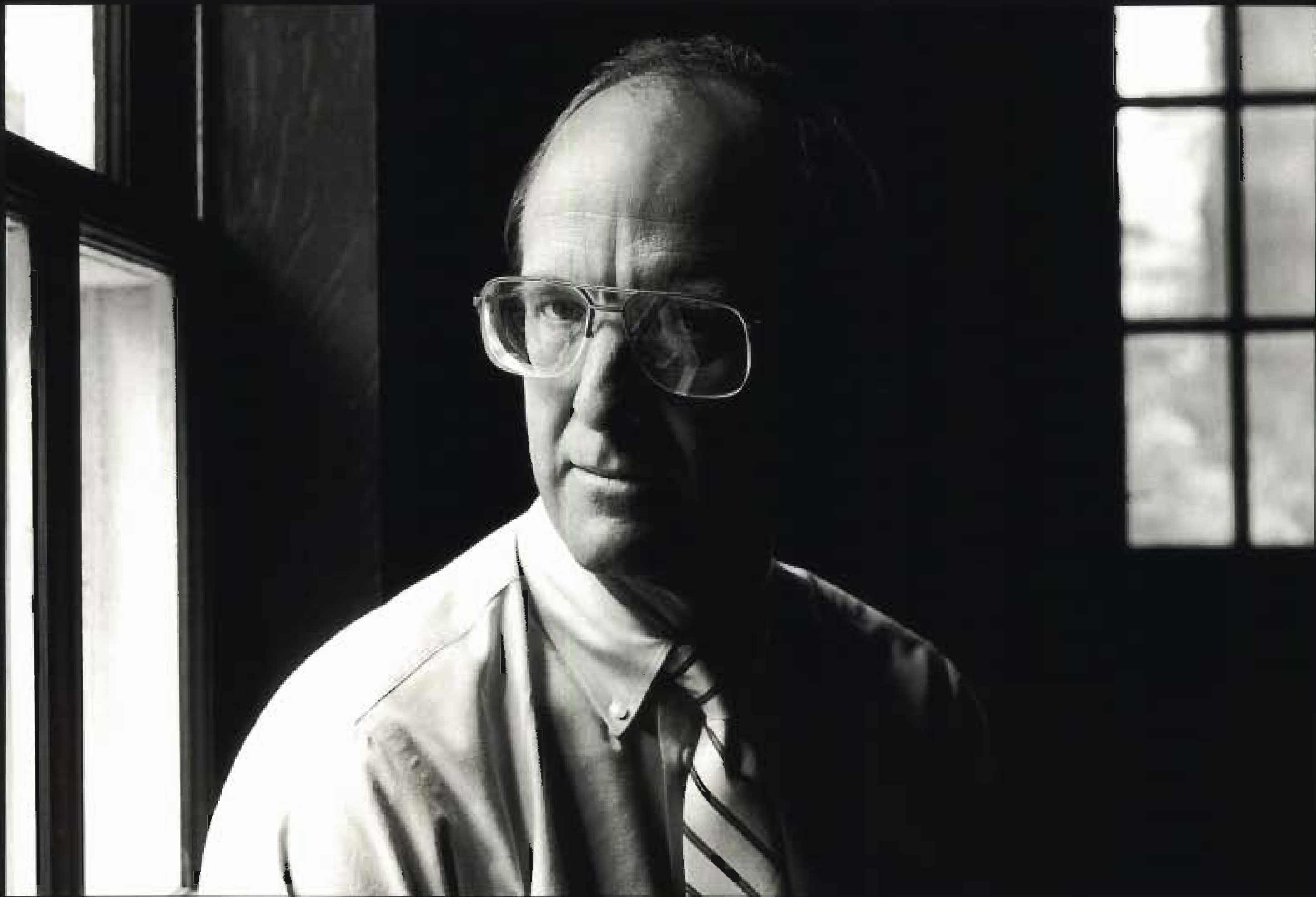
One big opportunity came as a result of a dramatic switch in the nation's drinking habits. Per capita consumption of wine in the '70s was around eight liters per person. Today, it is 20 liters and still growing. We entered this market early by acquiring the Stanley Wine Company, then enlarged capacity by acquiring additional wineries. Heinz is now a big volume producer, contesting for the number two spot in market share. Revenues from wine alone now make up more than a fifth of Heinz-Australia's total sales.

Another departure from branded foods is the acquisition of a small restaurant chain. Robs Restaurants is defined and advertised by its own particular blend of menus and by its distinctive use of color, lighting, signs and superstructure.

From the Greenseas tuna facilities in Eden to the factories in Dandenong, we have finely tuned our procurement and manufacturing operations to the nuances of the unusual Australian markets, which can change with surprising suddenness. Being the lowest cost operator allows us to have sunbursts of profit even in product lines of short duration. The deployment of Heinz skills and resources in Australia is perhaps a little dramatic, but the results in sales and profits have been dramatic, too.

President and chief executive of H.J. Heinz Australia Ltd., Ned Churchill has degrees from Wesleyan University and the Harvard Business School, is currently director of the American Chamber of Commerce in Australia.





use and inventories.

Star-Kist Foods made major improvements in its seafood operations with the completion of an expansion project at its facility in American Samoa. This expansion permits a capacity increase of 25%.

The first high-speed pet food processing line is nearing completion in the Muscatine, Iowa plant, and plans have been approved to expand the facility and incorporate new technology that will reduce labor costs by 25%.

The most modern automation equipment was installed in France at Star-Kist's Paulet processing line for mackerel products.

Ore-Ida Foods achieved outstanding efficiencies through a company-wide campaign to implement more than 100 low cost operator projects. Electronic data processing, materials management, capital spending management and manufacturing consolidation generated company-wide savings of more than $16 million.

Extensive automation and computerization of management information systems brought labor and energy savings to the Plover, Wisconsin factory. Expansion of its wastewater treatment facility contributed further to Ore-Ida's reputation as a good environmental neighbor.

Ore-Ida idled its Greenville, Michigan factory and placed it on standby status.

Foodways National completed major improvements in the Massillon, Ohio factory that chalked up remarkable capacity improvements of 67% for boil-in-bag production and 100% in the dessert line. Massillon also undertook a personnel reorganization and an expansion of its on-site storage area that will save the company $500,000 annually.

Upgraded equipment, expanded work areas and improved quality techniques increased the quality and productivity of Foodways' Wethersfield, Connecticut factory. Outside warehousing costs were cut with enlargement of the facility's storage capacity.

The Gagliardi Brothers plant in West Chester, Pennsylvania continued its expansion beyond its long-established meat processing operations, with the installation of a fully-automated facility for Ore-Ida's breaded Vegetable Crisps.

At Keokuk, Iowa, a 20% increase in productivity resulted from The Hubinger Company's efforts in capital improvements and labor reorganization. A new filling machine increased corn starch packing efficiency by 20%, with greater accuracy in filling weights. A computerized central room now consolidates control activities at the corn syrup refinery, and new ion-exchange equipment will allow production of highest-quality corn syrup.

Weight Watchers International efforts to expand its accessibility to consumers brought a 13% increase in weekly U.S. meeting sites. Similar increases were achieved in European company-owned operations, where 9% more meeting locations were provided.

In conjunction with a major real estate developer, Cardio-Fitness Corporation will open a mini-center in a new midtown Manhattan skyscraper to service the building's tenants.

Heinz-Canada's Leamington, Ontario factory completed its raw material management project, which provides additional warehouse space, centralization of can depalletizers and an improved automated conveyor delivery for raw materials. All baby cereal operations for the North American market were consolidated in the Leamington plant, giving Heinz-Canada the capacity, as market leader in the Canadian baby cereal business, to meet its expanding requirements and to supply products for Heinz U.S.A.

Heinz-U.K. vigorously pursued cost cuts that exceeded £18 million last year. The company made substantial progress also on its capital program, with expenditure of £14 million in pasta and beans production.

The Central European company installed a high-speed bottle line for ketchup in its Elst factory in the Netherlands, beginning production with a newly-developed paste that optimizes utilization of tomato solids.

Heinz-Italy renewed its commitment to productivity and quality with even more remarkable performances by Plada and Sperlari. Automated control of biscuit quality and a new hot air drying system for baby cereals helped Plada register productivity gains exceeding 20%. Similar gains were achieved for strained foods, fruit juices, baby

pasta and Misura crackers and cookies.

Sperlari continues to make progress in implementing the "Cremona Project," one of Heinz-Italy's largest capital investments. A highly-automated warehouse, designed to revolutionize Sperlari's order handling operations and capacity, went on line in midyear. Another significant development saw completion of modifications to nougat production facilities, allowing this seasonal product to be made two months later, netting larger sales and improved quality.

Heinz-Italy installed devices to measure residual radioactivity in raw materials and finished goods. The new equipment, added as a result of the Chernobyl incident, assures the safety of foods, especially those for infants.

Heinz-Australia completed a number of major projects in its Dandenong factory complex resulting in output gains. Labeling machinery and packing equipment were upgraded in conjunction with improved layout and material flow, resulting in productivity improvements in the company's major lines that ranged from 25% to 55%. Innovations in key equipment on the tomato ketchup and sauce lines caused an impressive 30% increase in productivity.

The entire Robs Restaurants chain was renovated, with new interior and exterior decor in all units.

Heinz-Japan installed new equipment to push up its rotary retort production nearly 29%, improve meat chopping efficiency 20% and reduce waste disposal expense 25%. Daily production increases in canned products ranged from roughly 8% to 20%.

Heinz-UFE's new baby cereal factory celebrated its grand opening. At fiscal year-end, the facility was selling all it could produce as consumer demand accelerated.

Seoul-Heinz is putting finishing touches on a new factory at Inchon, South Korea. Equipped with the latest technology, the Inchon plant will process a wide range of edible oils, along with mayonnaise, margarine, ketchup, peanut butter, chocolate and dry soups.

Alimentos Heinz in Venezuela made a series of investments at its San Joaquin factory that produced savings in packaging, processing, purchasing specifications and overall efficiency.

Zimbabwe's Olivine Industries reorganized its cotton factory and installed new cotton delinting equipment, adding 20% to the facility's solvent extraction.

Caribbean Restaurants opened nine new Burger King units and remodeled three more. The new facilities have increased sales more than 7%. Installation of new hamburger-making machinery has tripled production.

Land and Sea Resources

Excellent growing conditions and close cooperation among growers, truckers, grading stations and factories helped make the 1986 harvest one of Heinz U.S.A.'s most outstanding in all respects.

The West Coast tomato crop was excellent in terms of solids, color and factory yields. We were helped by perfect weather and our quality incentive program, which pays growers based on the quality of their tomatoes and the size of the California crop. The company's Tracy and Stockton factories ended the season ahead of schedule.

Similar to West Coast operations, the Fremont, Ohio factory completed its season early. Supplies from growers further south in the Columbus, Ohio area enabled the company to process 40% of the record tomato crop by the end of August.

Although challenged by excessive rains, Heinz tomato growers in the Muscatine, Iowa area harvested a good quality crop from Heinz-developed tomato hybrids.

Heinz U.S.A.'s Holland, Michigan factory reached 100% of its fresh pack and brined cucumber quotas, thanks in part to an early planting and production schedule.

The total North American navy bean crop suffered a 53% reduction, as a result of persistent rain in Michigan and Ontario. Only the crop in the Minnesota-North Dakota region was of normal size and quality. As a result, navy bean prices escalated, and only generic grade beans were generally available.

Heinz U.S.A.'s Bowling Green, Ohio research station released nine new hybrid tomato varieties that are more wilt resistant and offer growers in the Eastern U.S. and Canada a 16% improvement in yield.

Star-Kist stepped up its global procurement of tuna during the year. After extended negotiations with the Western Pacific nations, a treaty granting access to the U.S. tuna fleet has been concluded. It will

Chilled Food is Red Hot in Central Europe.

Robert Kuijpers — S. A. H. J. Heinz Central Europe N.V.

Every French household stubbornly believes it has the ultimate recipe for coq-au-vin. Drive from Belgium or the Netherlands into West Germany—never mind the cross-border similarities in clothing and popular entertainment—and you are entering a region where the food preferences in every town and crossroads hamlet seem to be steeped in local folklore, myth and tradition.

Trying to impose broad food categories across Europe's mental and national boundaries would be like trying to sell electric blankets in the tropics. Even the imagery used in selling food on Europe's commercial TV networks varies by region and country.

But Heinz-Central Europe does very well by selling many products in a lot of different markets. Ketchup, sauces and condiments, of course, were the foundation. And ketchup—up 40% in tonnage in the past five years—is still one of the fastest growing varieties of all. In Brussels, the Belgians use it on french fries. In Bonn, the Germans like it with pasta.

The tomato in its many forms has transnational appeal. Using tomato sauce and spices, Heinz-Italy's experts developed Spagheroni for Central Europe's markets. In Belgium, it was awarded the food industry's prize for the most successful new product of the year.

What currently distinguishes Central Europe's markets and the niches in them is that they grow substantially in a slice of the continent where the population is static—and even in the case of West Germany, declining. Spending per household is the thing to watch, and that's pretty vibrant. We discovered, as an example, an upscale market for salmon.

The synergy that binds our marketing and promotional efforts is an increasing demand for quality and convenience. One concrete expression of this is the explosive growth of chilled salads, fish and other delicatessen products. To service its expanding markets, including 3,000 food stores, our West German subsidiary, Nadler, has six factories and 14 regional warehouses. Nadler's sales are increasing at an annual rate of 9%.

Johma, Holland's leading producer of chilled salads, has inventively exploited export markets for a product that not long ago was available only in top flight restaurants. The company's chefs and technicians have combined the art of food presentation and the technique of chilling natural ingredients in ways that give Johma a special cachet.

As they have caught on in popularity, salads have come to acquire certain psychological connotations for the consumer. The use of salads has become a kind of status symbol. For one thing, the buyer is showing familiarity with the gastronomic trend towards lighter meals, lower in calories and higher in nutrition. Cross-border tourism has played a part, too. The variety of Nadler and Johma salads—as many as 60 can be found in some food stores—attests to eating adventures beyond the limited scale of local menus and points the way to our future.

Robert Marnix Kuijpers was born in Amsterdam, educated in Hilversum, was a world class tennis player and speaks four languages. The managing director of Heinz's Central European office is still a formidable figure at the net.

The Goods Pour out in Heinz's Canada.

T.D. Smyth — H.J. Heinz Company of Canada, Ltd.

The pressure to perform in a new environment is a good thing. In the dynamic world of food processing, where the harshest competition is now coming from retailers on the private label warpath, conventional responses are no longer adequate. The mandate that Heinz become the most efficient and productive operator, or else, certainly induced some sharp and inventive thinking.

"Towards a new culture" is a battle cry with such an apocalyptic ring that it forced us to re-examine the anatomy of the company. Are we, simply put, a fortunate organization that for 75 years successfully sold top-grade, brand name products in bottles and cans across Canada? Or, are we, potentially, something else?

Instead of rolling along on autopilot, people are asking themselves what the company's productive assets really are. Managers are assessing their weaknesses. Salespeople wonder whether they make the most of product lines. With efficiency in the front rank of corporate effort, every function in production, sales and research has to be newly measured.

We became acutely aware that, in a global economy, assumptions based on past history could bring a day of retribution. Our eyes were opened not only to obvious things that had been missed, but to possibilities that nobody ever dreamed of before.

A potentially powerful combination of forces is making itself felt. As the lowest cost operator doctrine gathers force, we have improved market shares in almost every brand name category from ketchup and vinegar to beans and pasta. In the 1987 fiscal year we introduced 19 new items. Another 15 products are on the back burners.

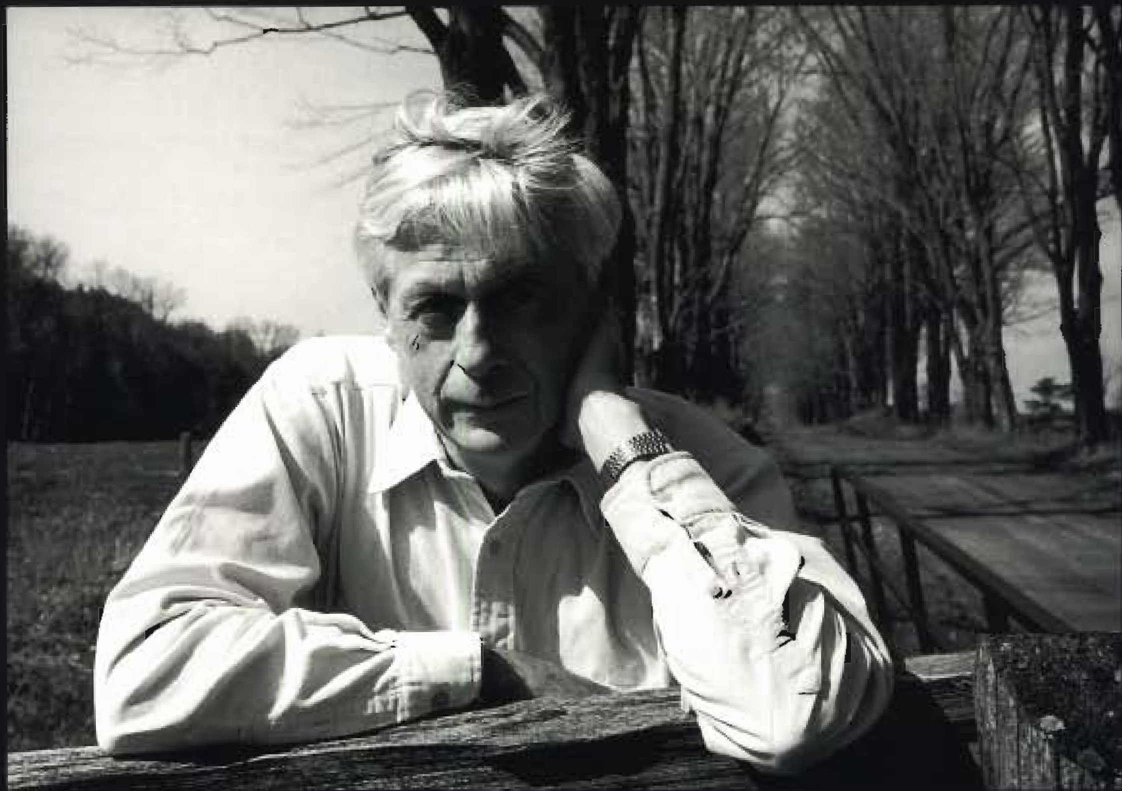
We are moving into entirely new areas of frozen foods with an array of Weight Watchers foods. And, we are test marketing meat products, imported from Britain, under the Bernard Matthews label. Helped along by foreign exchange rates, exports to the United States have increased. In the Caribbean, licensees have been authorized to sell some products under the Heinz label. In a year of transition, the goods are pouring out, the revenue streams are rising.

Meanwhile, the cultural characteristics of the company are changing. Necessarily, part of this culture change is pay for performance. There is an overwhelmingly positive response from our management staff at all levels to performance-based incentives. The aim, need we say, is that they should think and act as independent managers, endowed with the competence to make the right decisions and afforded the leeway to put them into effect without interference.

Autonomy does not stop with management. At the factory level, it goes right down to the machine operator. In a real sense, the new culture means that everyone becomes part of management. There is no famine of productive ideas when the individual employee is energized by a fertile technology and a system of enticing incentives.

The principal tool in this cultural metamorphosis is information. A complete electronic mail system now connects the entire sales force, allowing us not only to talk to each individual, but to listen. At a gathering of the entire staff at our Leamington manufacturing center, I made a public commitment to provide employees at every level with greater autonomy. They have freedom to put forward the most esoteric ideas and suggestions. Along with technology, brainpower is a mighty multiplier.

Tom Smyth was born and raised in Alberta, where his father was a prairie homesteader. He's still close to the land, raising cattle on a 500-acre farm, located two hours from downtown Toronto.



permit the fleet to harvest important Pacific fisheries on a long-term basis, thus avoiding ship seizures and ensuring supplies.

Weather conditions favored Heinz-Canada's tomato harvest, yielding a bumper crop of good quality tomatoes with above average solids.

Heinz-Canada entered into a joint biotechnology research program with the University of Guelph for developing tomatoes resistant to cold weather. Several promising techniques are being tested, with the expectation of extending the processing season by up to 15%.

Plada's livestock rearing operation, a cooperative effort with Italian suppliers to produce veal for strained baby foods, continues to yield excellent results and is expanding into poultry, fruit, cereals and other raw materials.

Ample supplies of tomatoes and grapes helped Heinz-Australia and its Stanley Wine subsidiary to process increased volumes. Stanley drew upon a record bounty of wine grapes for its cask wines and coolers.

Heinz-Japan profited from the strong yen and the steady decline in wholesale prices, drawing upon long-standing cooperative relationships with suppliers to realize substantial savings in the procurement of imported ingredients and domestic materials.

Seoul-Heinz will look to Heinz U.S.A. as its tomato paste source. This will provide better color and consistency, lower cost and less waste than the present supply from Taiwan.

Alimentos Heinz used local supply sources in response to the Venezuelan government's strict currency and import controls. The company's tomato seed research program successfully adapted higher-yield plant strains to Venezuela's climate.

Olivine Industries took advantage of an increase in the world price of white beans to expand its acreage fivefold, thus providing enough to meet Zimbabwean domestic demand, with a surplus for export to Heinz-U.K. Modern harvesting equipment was used for the first time, with substantial savings.

Olivine, with British and Canadian Heinz technicians, achieved encouraging preliminary results in cultivation trials in Zimbabwe of various new strains of white beans and tomatoes. This agricultural experimentation contains promise of alleviating world market supply restrictions.

Public Service

The H. J. Heinz Company Foundation made grants totaling $4.7 million to some 900 organizations. Of this amount, $840,000 represented matching fund contributions made by approximately 800 employees on a two-for-one dollar basis.

A list of beneficiaries reveals a wide range in terms of size and field: Boise State University, The Conservation Foundation, Asia Society Inc., Long Beach Symphony Orchestra, Pittsburgh Public Theater, Reading is Fundamental and many others. The Foundation focuses support in communities where Heinz has a major presence.

In recognition of the lifetime interest of the late Chairman Henry J. Heinz II in the field of nutrition, the Foundation strongly supports the work of the International Life Sciences Institute. During 1986, a grant was made for the establishment and administration of ILSI's Nutritional Sciences Program for basic research.

Heinz U.S.A. continued to expand the scope of its community service and charitable contributions during the year. Now in its eighth year, the Heinz Baby Food Label Saving Program, assisted by matching contributions from H. J. Heinz Company Foundation, made donations of more than $300,000 to 110 children's hospitals throughout the United States. The partnership between Heinz and the National Institute for the Food Service Industry marked the 32nd year of its scholarship program, with more than 480 scholarships for study in hotel and restaurant management awarded to date. Educational efforts also included the innovative Heinz-USA TODAY EconAwareness Program, Junior Achievement and a Partnership-in-

Education program with Oliver High School, located near the Pittsburgh factory.

Once again, the division acted as a sponsor of the annual fund raising auction for WQED, Pittsburgh's public television station.

Food donations were made to many Pittsburgh food banks in a continuing effort to ease the hardship of unemployment. A flash flood in Pittsburgh's northern suburbs elicited Heinz assistance in the form of cash contributions to the American Red Cross and other disaster relief agencies.

Numerous other agencies received Heinz donations in support of their efforts in education, health care and minority advancement. Heinz U.S.A. continued to provide financial support for a genetic treatment center founded by the Sickle Cell Society, a Pittsburgh-based organization.

Star-Kist's 9 Lives brand launched the first annual Cat Health Month, designed to increase the public's awareness of the need for feline health care on a regular basis.

Thanks to the fund raising efforts of Ore-Ida President Gerald D. Herrick and matching funds from the H.J. Heinz Company Foundation, the World Center for Birds of Prey, near Boise, Idaho opened the Gerald D. and Kathryn Swim Herrick Tropical Raptor Building, which will be used for the propagation and study of endangered species. The Ore-Ida Women's Challenge, now in its third year, won acclaim as the premier women's cycling race in the U.S. In addition to physical fitness, mental fitness was encouraged by Ore-Ida's support of the National School Volunteer Program. This commitment to education extended to Ore-Ida employees affected by the closing of its Greenville factory. Working with state government, Ore-Ida instituted a job placement and retraining program.

The Weight Watchers Foundation, having contributed almost $2 million toward obesity research since its founding in 1971, continues to expand its efforts, offering $157,000 in research grants supporting 22 different projects. A grant from the Foundation revitalized the Body Composition Laboratory of the Obesity Research Center at St. Luke's-Roosevelt Hospital in New York City.

As part of its centenary celebration, Heinz-U.K. presented a donation of £1 million for a nature conservation program, in association with World Wildlife Fund U.K. Named "Guardians of the Countryside," the initiative was described by the government's Environment Minister as "setting a magnificent example of how a great company should face the wider responsibilities to society." The highlight of the "Guardians of the Countryside" program came when Dr. A.J.F. O'Reilly presented the deed for Cape Cornwall, England's only cape, to Prime Minister Margaret Thatcher.

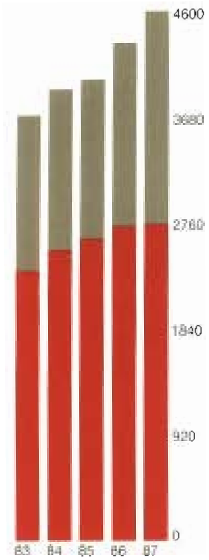
In Italy, Plada's Scotti-Bassani Foundation for Scientific and Nutritional Research and Information enlarged its commitment to provide computerized access to nutritional information.

For the 36th year, Heinz-Australia co-sponsored the Dandenong Festival of Music, the largest and most celebrated in the nation. Once again, Heinz supported the Victoria Little Athletics Association state relay championships.

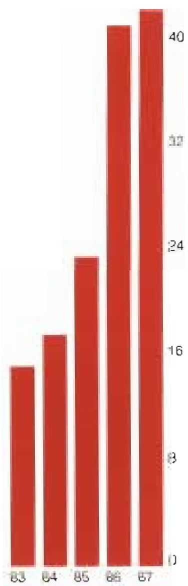
Caribbean Restaurants paid continuing attention to community life in Puerto Rico as a major contributor to the Muscular Dystrophy Association; the Roberto Clemente Sport City, one of the island's largest sports complexes; and Puerto Rico's Olympic Lodging, the only facility of its kind in the Caribbean and South America. The Burger King subsidiary received the "Outstanding Merit Award—Restaurant/Hotel Sector" from the Governor of Puerto Rico for placing its Burger Bus at the site of the DuPont Plaza Hotel fire on New Year's Eve to provide free food to rescue crews.

Olivine Industries presented a variety of musical instruments to form the basis for a musical training and outreach program for Zimbabwean youth at a neighboring school.

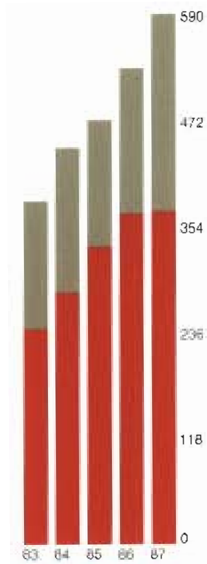
Financial Charts.



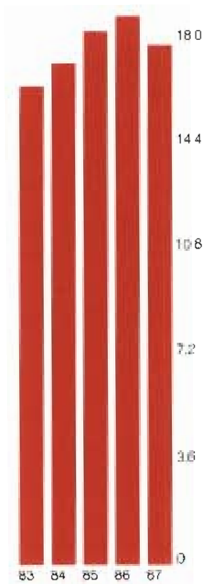
Sales
(in millions of dollars)
■ Foreign
■ Domestic
Five-Year Compound Growth: 4.7%



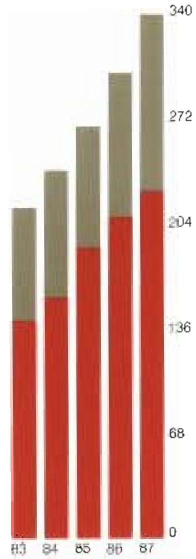
Common Stock Price at Year-End
(in dollars)



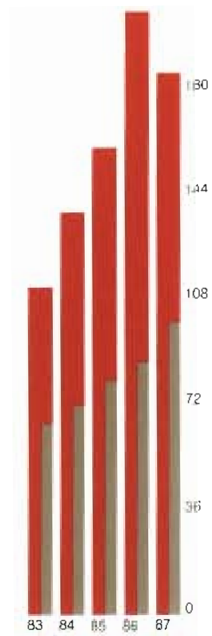
Operating Income
(in millions of dollars)
■ Foreign
■ Domestic
Five-Year Compound Growth: 11.2%



Aftertax Return on Invested Capital
(in percent)



Net Income
(in millions of dollars)
■ Foreign
■ Domestic
Five-Year Compound Growth: 13.1%



Capital Expenditures and Depreciation
(in millions of dollars)
■ Capital Expenditures
■ Depreciation

Financial Review.

H.J. Heinz Company and Consolidated Subsidiaries

Operating Results

Net sales rose 6.3%, or $273.3 million, in 1987. The weaker U.S. dollar used in the translation of foreign currencies contributed approximately two-thirds of the sales increase. Unit volume growth and acquisitions accounted for the remaining one-third. Price increases in some foreign markets were offset by lower prevailing prices in the U.S. The acquired companies included Near East Food Products, Inc. (a producer of flavored rice mixes and other specialty food products), The Pro-Mark Companies, Inc. (a distributor of Weight Watchers-brand dairy products) and Scaramellini S.p.A. (an Italian confectioner).

Foreign volume growth, particularly in the United Kingdom, Canada, Venezuela and Japan, provided over 60% of the consolidated volume gains. Domestic volume gains came primarily from Weight Watchers meeting and food operations, tuna products and Amoré gourmet canned cat food.

In 1986, volume gains provided 75% of the sales growth, with foreign increases contributing approximately one-half of the total volume growth. These gains were complemented by the effect of a weaker U.S. dollar versus certain major foreign currencies.

The gross profit margin continues to improve, reaching 40.1% in 1987 from 39.5% in 1986 and 38.4% in 1985. Lower commodity costs and volume growth in certain higher profit margin products and services contributed to margin expansion.

Marketing expenditures grew 9.1% to $379.8 million in 1987, from $348.0 million in 1986 and from $303.0 million in 1985. In addition to a continuing commitment to its established brands, the company spent heavily on growth opportunities in new product areas, such as Candle Lite dinners and microwavable potatoes. Other operating expenses increased 5.0% in 1987, compared with increases of 8.6% in 1986 and 2.4% in 1985. These expenses reflect the effect of the company's efforts to reduce costs.

Operating income increased 11.3% in 1987, with the operating margin improving to 12.8% in 1987 from 12.2% last year and 11.7% in 1985. This improvement was achieved despite restructuring charges of $27.4 million in 1987, $18.5 million in 1986 and $16.9 million in 1985. The restructuring charges included in prior periods have been reclassified to operations from other expense, in accordance with the provisions of the SEC Staff Accounting Bulletin No. 67, Income Statement Presentation of Restructuring Charges. The current year's restructuring charges primarily result from redundancy-related costs at Heinz-U.K., costs associated with the closure of Ore-Ida's Greenville, Michigan facility and further consolidation of Star-Kist production facilities at Terminal Island, California. Operating income in 1987 benefited from sales volume growth in the company's higher profit margin products and services, from the effect of the company's cost reduction efforts and from a weaker U.S. dollar.

The foreign companies contributed approximately 37% of total operating income in 1987. Heinz-Italy's double-digit local currency operating income growth was supplemented by a nearly 30% increase in the average lira exchange rate. Heinz-U.K.'s local currency operating income growth was achieved despite higher redundancy-related costs in 1987, as it benefited from its emphasis on reducing factory costs. This local currency growth was complemented by a stronger sterling exchange rate. Significant operating income growth, in local currency and U.S. dollars, also was achieved at Heinz companies in Portugal, Central Europe, Japan, Venezuela and Zimbabwe.

Domestic operating income growth was achieved by Weight Watchers meeting and food operations and by Hubinger, where lower corn costs more than offset lower prices for sweeteners. This growth was reduced by the restructuring charges associated with the closure of Ore-Ida's Greenville facility and production consolidation at Star-Kist, as well as the effect of lower prices for retail ketchup and certain pet food products.

In 1986, operating income increased 12.2% over 1985, with domestic growth driven primarily by Weight Watchers meeting and food operations and by Heinz U.S.A. Contributing to foreign operating income growth in 1986 were strong operating performances by Heinz-Italy and Heinz-U.K.

Interest income increased 3.2% to $37.8 million in 1987, from $36.6 million in 1986. This year's amount reflects the effect of higher investment levels, partially offset by lower interest rates.

Interest expense decreased $7.0 million, or 12.0%, to $51.0 million, following a 9.7% rise in 1986. This year's decrease reflects the effect of lower interest rates, partially offset by higher average borrowings for the year.

In addition to including recurring non-operating items, other income and expense includes certain unusual non-operating items that, by their nature, fluctuate from period to period. This year's amount includes a $13.9 million credit arising from the effect of the U.S. Tax Reform Act of 1986 on assumptions used in accounting for tax benefit leases, which were entered into in 1982 and 1983. This credit was offset by higher goodwill and trademark amortization, and by the write-off of certain intangible assets.

The $226.1 million provision for income taxes in 1987 resulted in an effective tax rate of 40.0%, compared with 39.6% in 1986 and 40.3% in 1985. This year's rate reflects the repeal of the investment tax credit by the Tax Reform Act of 1986, as well as higher effective rates in several foreign countries. The lower statutory tax rate provided by the Tax Reform Act of 1986 will not become effective until the company's fiscal year 1988.

Net income rose 12.2% in 1987, reaching a record $338.5 million, while net income per share increased 12.3% to $2.47. Domestic companies contributed 66.5% of consolidated net income in 1987, 69.0% in 1986 and 70.8% in 1985. Domestic net income increased 8.2% to $225.2 million from $208.1 million last year, after giving recognition to the closure of Ore-Ida's Greenville facility and production consolidation at Star-Kist.

Common dividends paid to shareholders increased $14.9 million to $132.3 million, reflecting the September, 1986 increase in the quarterly dividend rate from 22½ cents per share to 25 cents per share, and the March, 1987 increase to 28 cents per share. The dividend rate in effect at year-end results in an annual payout of $1.12 per share, which approximates a 45% payout ratio on current year's earnings.

Liquidity and Capital Resources

Return on average shareholders' equity improved for the ninth consecutive year, reaching 24.6% in 1987, from 23.3% last year and 22.6% in 1985. Total debt increased by $336.0 million, from $540.6 million to $876.6 million. Cash and short-term investments increased by $159.4 million, from $405.3 million to $564.7 million. "Net debt" was up $176.6 million. The higher "net debt" level resulted primarily from the stock repurchase program. In 1987, $236.3 million was spent to repurchase 5.5 million Heinz shares. As of year end, approximately 2.7 million shares remained to be repurchased under the current program. The company intends to reissue repurchased shares upon exercise of stock options and conversions of preferred stock and convertible debt.

Capital expenditures were $184.7 million in 1987, compared with $206.3 million in 1986 and $158.8 million in 1985. The capital spending supported growth-related expansion and productivity improvements at existing facilities.

At April 29, 1987, the company had $347.0 million in unused lines of credit (cancellable only after 390 days written notice), which are maintained primarily to support domestic commercial paper and bank borrowings. Accordingly, $347.0 million of commercial paper and bank debt supported by such agreements was classified as long-term debt ($120.0 million at April 30, 1986).

Long-term debt was also increased by the sale in October, 1986 of $75.0 million of 7½% Eurodollar bonds due October 1, 1996. The proceeds from the issue were used to repay certain short-term debt.

The debt to total invested capital ratio increased to 38.6% in 1987 as compared to 28.4% in 1986 and 27.4% in 1985. Increased debt leverage, principally as a result of stock repurchasing activities, caused pretax return on average invested capital to drop from 31.0% to 29.5%. The aftertax return was 17.7% compared to 18.7% in 1986.

Segment and Geographic Data

The company is engaged principally in one line of business—processed food products—which represents over 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers between geographic areas and no material amounts of United States export sales.

(in thousands of U.S. dollars)	*Domestic*	*Foreign: Continental Europe*	*Foreign: United Kingdom*	*Foreign: Canada*	*Foreign: Other*	*Foreign: Total*	*Worldwide*
1987							
Sales	$2,780,923	$673,186	$626,733	$292,070	$266,574	$1,858,563	$4,639,486
Operating income	372,840	83,669	63,537	38,337	34,602	220,145	592,985
Identifiable assets	1,980,811	571,372	429,691	186,674	195,649	1,383,386	3,364,197
Capital expenditures	101,927	15,834	42,509	13,475	10,985	82,803	184,730
Depreciation expense	65,932	11,203	10,541	6,460	5,082	33,286	99,218
1986							
Sales	$2,764,815	$492,275	$576,249	$285,928	$246,910	$1,601,362	$4,366,177
Operating income	371,897	48,013	55,739	32,167	24,767	160,686	532,583
Identifiable assets	1,724,593	412,425	363,006	149,712	187,628	1,112,771	2,837,364
Capital expenditures	114,722	14,320	49,238	18,753	9,298	91,609	206,331
Depreciation expense	58,519	7,487	9,257	5,523	4,738	27,005	85,524
1985							
Sales	$2,661,700	$398,363	$458,889	$281,734	$247,259	$1,386,245	$4,047,945
Operating income	335,078	35,982	34,026	41,357	28,155	139,520	474,598
Identifiable assets	1,591,130	293,462	263,025	146,836	179,321	882,644	2,473,774
Capital expenditures	97,695	8,165	25,047	15,629	12,294	61,135	158,830
Depreciation expense	56,042	6,132	6,943	5,199	4,517	22,791	78,833

Stock Market Information

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 22, 1987 approximated 32,800. The closing price of the common stock on the New York Stock Exchange composite listing on April 29, 1987 was $42⅛.

Stock price information for common stock by quarter follows:

	Stock Price Range: High	*Stock Price Range: Low*
1987		
First	$47½	$39⅜
Second	47⅝	38¼
Third	45¾	39⅛
Fourth	50½	40½
1986		
First	$28⅜	$22⅝
Second	29½	25⅞
Third	34¼	28¼
Fourth	44	30⅜

Consolidated Statements of Income and Retained Earnings.

H.J. Heinz Company and Consolidated Subsidiaries

(in thousands except per share data)	*Fiscal Year Ended*	*April 29, 1987 (52 weeks)*	*April 30, 1986 (52 weeks)*	*May 1, 1985 (52 weeks)*
Consolidated Statement of Income:	*Sales*	**$4,639,486**	$4,366,177	$4,047,945
	Cost of products sold	**2,779,781**	2,640,777	2,492,384
	Gross profit	**1,859,705**	1,725,400	1,555,561
	Operating expenses	**1,266,720**	1,192,817	1,080,963
	Operating Income	**592,985**	532,583	474,598
	Interest income	**37,790**	36,608	33,359
	Interest expense	**50,978**	57,956	52,821
	Other expense, net	**15,221**	11,907	9,833
	Income before income taxes	**564,576**	499,328	445,303
	Provision for income taxes	**226,070**	197,594	179,325
	Net Income	**$ 338,506**	$ 301,734	$ 265,978
Consolidated Statement of Retained Earnings:	Amount at beginning of year	**$1,564,581**	$1,380,425	$1,220,227
	Net income	**338,506**	301,734	265,978
	Cash dividends:			
	Common stock	**132,278**	117,351	105,489
	Preferred stock	**177**	227	291
	Amount at end of year	**$1,770,632**	$1,564,581	$1,380,425
Per Common Share Amounts:	Net income	**$ 2.47**	$ 2.20	$ 1.93
	Cash dividends	**$ 1.00½**	$ .87½	$ .77½

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position.

H. J. Heinz Company and Consolidated Subsidiaries

(in thousands)	*Fiscal Year Ended*	***April 29, 1987***	*April 30, 1986*	*May 1, 1985*
Source of Funds:	Net income	**$338,506**	$301,734	$265,978
	Depreciation and amortization	**109,868**	91,400	84,721
	Deferred taxes	**25,655**	31,986	43,281
	Other items, net	**43,077**	(19,330)	3,505
	Funds from operations	**517,106**	405,790	397,485
	Long-term borrowings	**328,428**	40,363	58,207
	Exercise of stock options	**15,193**	24,367	9,761
	Total funds provided	**860,727**	470,520	465,453
Use of Funds:	Capital expenditures, net	**178,874**	203,671	151,285
	Common stock repurchases	**236,331**	131,832	11,564
	Dividends	**132,455**	117,578	105,780
	Reduction of long-term debt	**43,179**	13,680	81,334
	Other noncurrent assets	**162,866**	10,104	18,421
	Increase (decrease) in working capital:			
	Receivables	**18,470**	94,352	38,924
	Inventories	**29,043**	9,468	8,158
	Prepaid expenses	**35,011**	6,804	11,959
	Payables	**(9,171)**	(42,073)	5,188
	Accruals	**(59,948)**	(18,556)	(6,057)
	Income taxes	**(4,463)**	(40,749)	24,410
	Increase in working capital	**8,942**	9,246	82,582
	Changes in cash, other working capital and debt due to currency rate movements	**(10,558)**	(23,869)	16,508
	Total funds used	**752,089**	462,242	467,474
	Net change in cash and current debt	**$108,638**	$ 8,278	$ (2,021)
Changes in Cash and Current Debt:	Increase in cash and short-term investments	**$159,421**	$ 58,770	$ 35,843
	(Increase) in current debt	**(50,783)**	(50,492)	(37,864)
		$108,638	$ 8,278	$ (2,021)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET.

H.J. HEINZ COMPANY AND CONSOLIDATED SUBSIDIARIES

Assets (in thousands)		*April 29, 1987*	*April 30, 1986*
Current Assets:	Cash	$ 48,139	$ 22,522
	Short-term investments, at cost which approximates market	516,537	382,733
	Receivables	455,306	438,525
	Less allowances	9,021	10,710
		446,285	427,815
	Inventories:		
	Finished goods and work-in-process	534,948	520,532
	Packaging material and ingredients	211,952	197,325
		746,900	717,857
	Prepaid expenses and other current assets	98,970	63,959
	Total current assets	1,856,831	1,614,886
Property, Plant and Equipment, at cost:	Land	27,826	25,005
	Buildings and leasehold improvements	369,980	330,655
	Equipment, furniture and other	1,327,240	1,164,694
		1,725,046	1,520,354
	Less accumulated depreciation	688,286	596,834
	Net property, plant and equipment	1,036,760	923,520
Other Noncurrent Assets:	Investments, advances and other assets	263,563	111,619
	Excess of investments in consolidated subsidiaries over net assets at acquisition	207,043	187,339
		$3,364,197	$2,837,364

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (in thousands)		*April 29, 1987*	*April 30, 1986*
Current Liabilities:	Short-term debt	**$ 239,037**	$ 226,592
	Portion of long-term debt due within one year	**51,980**	13,642
	Accounts payable	**333,389**	324,218
	Salaries and wages	**68,462**	54,046
	Accrued marketing	**63,854**	50,352
	Other accrued liabilities	**184,995**	152,965
	Income taxes	**93,055**	88,592
	Total current liabilities	**1,034,772**	910,407
Long-Term Debt and Other Liabilities:	Long-term debt	**585,603**	300,354
	Deferred income taxes	**242,314**	211,669
	Other	**108,559**	54,927
		936,476	566,950
Shareholders' Equity:	Capital stock:		
	Third cumulative preferred, $1.70 first series, $10 par value	**970**	1,141
	Common stock, 143,700,000 shares issued, $.25 par value ($.50 in 1986)	**35,925**	71,850
		36,895	72,991
	Additional capital	**125,446**	85,882
	Retained earnings	**1,770,632**	1,564,581
	Cumulative translation adjustments	**(88,044)**	(136,073)
		1,844,929	1,587,381
	Less treasury shares, at cost (15,061,327 shares at April 29, 1987 and 10,282,921 shares at April 30, 1986)	**451,980**	227,374
	Total shareholders' equity	**1,392,949**	1,360,007
		$3,364,197	$2,837,364

Notes to Consolidated Financial Statements.

H.J. Heinz Company and Consolidated Subsidiaries

1. Significant Accounting Policies

Fiscal Year: The company operates on a fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 29, 1987, April 30, 1986, and May 1, 1985.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its domestic and foreign subsidiaries except for certain subsidiaries primarily involved in fishing vessel operations. These subsidiaries, together with investments in other entities also engaged primarily in fishing vessel operations, are accounted for on the equity or cost basis, as appropriate.

The excess of investments in consolidated subsidiaries over net assets at acquisition and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual components of the balances and recognizes, on a current basis, any diminution in value.

Translation of Foreign Currencies: Assets and liabilities are translated at the exchange rate in effect at each year end and income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in shareholders' equity.

Inventories: Inventories are stated at the lower of cost (principally the average method) or market.

Depreciation: For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods generally are used for income tax purposes.

Income Taxes: Deferred income taxes primarily result from timing differences between financial and tax reporting. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is placed in service. The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes; in those cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statement of Income.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by 136,834,666 in 1987, 137,315,701 in 1986, and 137,678,880 in 1985, the weighted average number of shares of common stock outstanding and common stock equivalents during the respective years.

Business Segment Information: Information concerning business segment and geographic data is on page 39 in the Financial Review.

2. Income Taxes

The following table summarizes the provision for federal, state, U.S. possessions and foreign taxes on income.

(in thousands)	*1987*	*1986*	*1985*
Current:			
Federal, state and U.S. possessions	**$ 87,985**	$109,295	$ 86,288
Foreign	**55,322**	45,955	57,600
	143,307	155,250	143,888
Deferred:			
Federal, state and U.S. possessions	**54,738**	25,826	39,469
Foreign	**28,025**	16,518	(4,032)
	82,763	42,344	35,437
Total tax provision	**$226,070**	$197,594	$179,325
Pretax income:			
Domestic	**$367,876**	$343,255	$314,110
Foreign	**196,700**	156,073	131,193
	$564,576	$499,328	$445,303

The current provision for federal taxes includes a reduction for investment tax credits amounting to $1.5 million in 1987, $6.9 million in 1986 and $3.7 million in 1985. The 1987 amount reflects the repeal of the investment tax credit by the Tax Reform Act of 1986. Deferred income taxes are provided for timing differences in the recognition of income and expense items for financial and tax purposes. The differences in 1987 include $30 million as a result of prefunded employee benefits. The remainder results principally from depreciation.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1983.

The differences between the United States statutory tax rate and the effective rate are as follows:

	1987	*1986*	*1985*
United States statutory tax rate	46.0%	46.0%	46.0%
Investment tax credit	(.3)	(1.4)	(.8)
Tax on income of foreign subsidiaries	(1.3)	(1.8)	(1.5)
Tax on income of U.S. possessions subsidiaries	(5.5)	(6.5)	(6.1)
State income taxes (net of federal income tax benefit)	1.2	1.9	1.9
Other	(.1)	1.4	.8
Consolidated effective tax rate	40.0%	39.6%	40.3%

Undistributed earnings of foreign subsidiaries approximated $588.0 million at April 29, 1987.

3. Debt

Short-Term (dollars in thousands)	*1987*	*1986*
Amount outstanding at year end:		
Commercial paper	$144,233	$101,002
Bank borrowings	94,804	125,590
	$239,037	$226,592

Long-Term (dollars in thousands)	*Range of Interest*	*Maturity (fiscal year)*	*1987*	*1986*
United States Dollars:				
Commercial paper and master notes	Variable	1989	$347,000	$120,000
Convertible subordinated debentures				
(Net of unamortized discount of $5,944)	7¼%	2001-2015	34,682	34,605
Eurodollar bonds	7½	1997	75,000	–
Debentures	7¼	1998	2,789	2,789
Revenue bonds	5⅝-11¾	1992-2016	37,510	44,006
Promissory notes	5⅜-13¾	1988-2005	36,729	29,070
Other	5⅜-10	1988-2000	7,720	6,438
			541,430	236,908
Foreign Currencies (U.S. dollar equivalents):				
Promissory notes:				
German marks	6¾	1988	27,617	21,362
Italian lira	3 -17¼	1988-1997	15,489	7,189
Australian dollars	12⅛	1991	26,338	26,364
Other	5⅜-16¼	1988-1997	26,709	22,173
			96,153	77,088
Total long-term debt			637,583	313,996
Less portion due within one year			51,980	13,642
			$585,603	$300,354

The amount of long-term debt required to be retired in each of the four years succeeding 1988 is: $15.8 million in 1989, $11.5 million in 1990, $35.0 million in 1991 and $6.1 million in 1992. The company has guaranteed debt of certain unconsolidated subsidiaries, affiliated companies and other parties amounting to $24.9 million at April 29, 1987.

The $347.0 million of commercial paper and master notes is supported by long-term line of credit agreements that are cancellable only after 390 days written notice. These agreements replace similar agreements negotiated in 1985 which had supported $120.0 million of commercial paper and master notes. The commercial paper and master notes had a weighted average interest rate during the year of 6.2% and at year end of 6.5%.

The convertible subordinated debentures are convertible into common stock of the company at $35.19 per share, subject to adjustment. After February 15, 1988, the company may redeem all, or part, of the debentures at 100% of face value. Annual sinking fund payments of $2.0 million are required beginning February, 2001.

On October 1, 1986, the company issued in the Eurodollar market $75.0 million of 7½% bonds due October 1, 1996 with warrants to purchase, for a period of four years, an additional $75.0 million of 7½% bonds. The proceeds from the issue of the initial bonds and the warrants were used to repay certain short-term debt.

4. Capital Stock, Additional Capital and Cumulative Translation Adjustments

Information related to shares of stock outstanding and in treasury, and to additional capital follows:

	Shares (in thousands)			
	Cumulative Preferred Stock	*Common Stock*		
	Third, $1.70 First Series $10 par	*Issued*	*In Treasury*	*Additional Capital (in thousands)*
Balance May 2, 1984	172	143,700	7,586	$ 91,322
Reacquired	–	–	614	–
Conversion of preferred into common stock	(31)	–	(142)	(1,850)
Stock options exercised	–	–	(826)	(5,015)
Other, net	–	–	–	2,149
Balance May 1, 1985	141	143,700	7,232	$ 86,606
Reacquired	–	–	4,680	–
Conversion of preferred into common stock	(27)	–	(121)	(1,612)
Stock options exercised	–	–	(1,508)	(3,699)
Other, net	–	–	–	4,587
Balance April 30, 1986	114	143,700	10,283	$ 85,882
Reacquired	–	–	5,474	–
Conversion of preferred into common stock	(17)	–	(77)	(1,124)
Stock options exercised	–	–	(619)	(749)
Reduction in par value of common stock	–	–	–	35,925
Other, net	–	–	–	5,512
Balance April 29, 1987	97	143,700	15,061	$125,446
Authorized – April 29, 1987	97	600,000	–	–

Capital stock: Common stock reserved for stock option plans and conversion of preferred stock and convertible debt into common stock totaled 16,541,630 shares as of April 29, 1987. The preferred stock outstanding is convertible at a rate of one share of preferred stock into 4.5 shares of common stock. The company can redeem the stock at $28.50 per share.

On September 10, 1986, the shareholders approved an amendment to the company's Articles of Incorporation to increase the authorized common stock of the company from 300,000,000 shares to 600,000,000 shares and to change the par value of the common stock from $.50 per share to $.25 per share. This amendment was effective September 11, 1986.

At April 29, 1987, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Cumulative translation adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of foreign subsidiaries' financial statements into U.S. dollars. The translation component decreased $48.0 million in 1987, decreased $52.8 million in 1986, and increased $48.6 million in 1985.

5. Employees' Stock Option Plans and Management Incentive Plans

Under the company's stock option plans, officers and other key employees may be granted options, each of which allows for the purchase of one share of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant.

The company's 1984 Stock Option Plan authorizes the granting of 10,000,000 shares through December, 1994. As of April 29, 1987, options for approximately 8,356,000 shares have been granted under this plan.

In January, 1987, the Board of Directors approved, subject to the approval of the shareholders at the annual meeting in September, 1987, a new stock option plan, providing for the grant of up to 5,000,000 shares through January, 1997. As of April 29, 1987, options for approximately 157,000 shares have been granted under this plan, subject to approval of the plan by the shareholders. In general, this plan has terms similar to the company's other stock option plans.

Data regarding the company's stock option plans appear in the table that follows.

	Shares	*Range of Option Price*
Shares under option May 2, 1984	6,450,302	$ 5¼-19
Options granted	5,058,100	16½-22
Options exercised	(1,021,584)	5¼-19
Shares under option May 1, 1985	10,486,818	$ 5¼-22
Options granted	1,190,040	23⅛-32⅝
Options exercised	(1,508,419)	5¼-27⅝
Options surrendered	(31,400)	12⅝-29⅞
Shares under option April 30, 1986	10,137,039	$ 5¼-32⅝
Options granted	3,811,284	42¼-45¼
Options exercised	(618,993)	5¼-42¼
Options surrendered	(23,000)	42¼-45¼
Shares under option April 29, 1987	13,306,330	$ 5½-45¼
Options exercisable at:		
April 30, 1986	7,106,825	
April 29, 1987	11,341,524	

Common stock reserved for options totaled 14,950,436 shares as of April 29, 1987 and 15,569,435 shares as of April 30, 1986.

The company's management incentive plans cover certain key employees of the company and its subsidiaries. Participants in the plans may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Management incentive plan expense was $16.1 million in 1987, $19.9 million in 1986 and $15.6 million in 1985.

6. Retirement Plans

The company maintains retirement plans for the majority of its employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed income securities. The company's funding policy for the U.S. plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Effective May 1, 1986, the company adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, for its U.S. and Canadian pension plans. The effect of this change, which was to reduce pension costs, did not have a material impact on net income.

The 1987 consolidated pension costs consisted of the following (in thousands):

Benefits earned during the year		$13,753
Interest cost on projected benefit obligation		31,271
		45,024
Less:		
Return on assets:		
Actual	71,612	
Less deferred gain	34,242	
		(37,370)
Net amortization		(3,072)
Net pension costs, U.S. and Canadian plans		4,582
Net pension costs, other plans		10,214
Consolidated net pension costs		$14,796

Consolidated pension costs for 1986 and 1985 were $23.5 million and $30.8 million, respectively.

The funded status of the U.S. and Canadian plans at April 29, 1987 was as follows (in thousands):

Accumulated benefit obligation, primarily vested	$355,071
Additional obligation, for projected compensation increases	79,255
Projected benefit obligation	$434,326
Plan assets	$477,912
Amount expensed but not yet funded	15,363
Amount provided for future benefits	$493,275
Amount provided for future benefits in excess of projected benefit obligation	$ 58,949
Consists of:	
Unamortized actuarial gains	$ 41,147
Unamortized prior service cost	(25,788)
Unamortized net assets at date of adoption	43,590
	$ 58,949

For the U.S. plans, the actuarial projected benefit obligation at April 29, 1987 was determined using an assumed discount rate of 8.5%. The projected benefit obligation includes an assumed long-term rate of compensation increase of 5.5% for those plans whose benefits are based upon earnings near retirement. For purposes of determining 1987 pension costs, the assumed long-term rate of return on plan assets was 9.0%. The assumptions for the Canadian plans were developed on a basis consistent with that for U.S. plans, adjusted for prevailing economic conditions.

The actuarial present value of accumulated benefits for the company's U.S. plans at April 30, 1986 was $221.4 million, including $183.0 million of vested benefits. These amounts reflect an assumed rate of return of 9.0%. The market value of plan assets at April 30, 1986 was $293.8 million. The market value of plan assets for the company's foreign plans exceeded the present value of vested benefits at the date of the most recent actuarial valuations.

In addition to providing pension benefits, the company and certain of its subsidiaries provide health care and life insurance benefits for retired employees. Substantially all of the company's U.S. and Canadian employees may become eligible for these benefits. The cost of retiree health care and life insurance benefits is expensed as incurred. These costs totaled approximately $3.1 million in 1987, $3.0 million in 1986 and $3.0 million in 1985.

7. Leases

Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $42.3 million in 1987, $36.7 million in 1986 and $31.8 million in 1985. Future lease payments for noncancellable operating leases as of April 29, 1987 totaled $133.4 million (1988—$25.0 million, 1989—$21.8 million, 1990—$18.8 million, 1991—$14.4 million, 1992—$12.7 million, and thereafter—$40.7 million).

8. LEGAL MATTERS

Star-Kist Foods, Inc., a wholly-owned subsidiary of the company, and two other tuna canners, Ralston-Purina, Inc. and Castle & Cooke, Inc., are defendants in a suit brought by owners of 21 tuna fishing vessels which was originally filed in February, 1985 in the United States District Court for the Southern District of California in San Diego. The complaint alleges that the defendants have engaged in price fixing and other violations of federal antitrust laws in connection with the purchase of raw tuna from the plaintiffs. Plaintiffs have also asserted in the same litigation, state contract, tort and punitive damage claims. Star-Kist Foods has vigorously defended against this action and in November, 1985, filed its own antitrust and state law counterclaims against the plaintiffs. Most of the plaintiffs have settled with the defendants and settlement negotiations are in progress with the remaining plaintiffs. Management is of the opinion, based on facts presently available, that this action will finally be settled for an amount approximating the amount which has been reserved in the company's 1987 consolidated financial statements. This amount was not material to 1987 results.

Two class actions were also filed against the above-named defendants on behalf of crew members of fishing vessels and their union alleging claims substantially similar to those made by the vessel owners. The first case which alleged violations of federal and state antitrust laws and state tort law, was filed in the United States District Court for the Southern District of California in San Diego in May, 1985 and was dismissed by the District Court in September, 1985. The dismissal was affirmed by the Ninth Circuit Court of Appeals in March, 1987 and the deadline for filing a Petition for Certiorari with the United States Supreme Court has passed. In November, 1985 a second class action was filed by approximately 185 crew members and their union in the Superior Court of the State of California in San Diego. Plaintiffs allege violations of state antitrust and tort laws similar to those in the previously dismissed federal case. Plaintiffs seek antitrust damages of $41 million which, if proven, would be trebled to $123 million and for the tort claims, actual damages of $41 million and punitive damages of $31 million for a total of $195 million. Pretrial discovery has not yet commenced in the case. Star-Kist Foods is vigorously defending against this action.

Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. These claims, as well as those described above, when finally concluded and determined, will not, in the opinion of management, based upon the information that it presently possesses, have a material adverse effect on the consolidated financial position.

9. QUARTERLY RESULTS (UNAUDITED)

Summarized quarterly financial information follows:

				Per Share Amounts	
(in thousands except per share amounts)	*Sales*	*Gross Profit*	*Net Income*	*Net Income*	*Dividend*
1987					
First	$1,084,353	$ 441,740	$ 85,749	$ .62	$ .22½
Second	1,157,263	467,453	83,954	.61	.25
Third	1,084,858	433,491	74,666	.55	.25
Fourth	1,313,012	517,021	94,137	.69	.28
Total	$4,639,486	$1,859,705	$338,506	$ 2.47	$ 1.00½
1986					
First	$1,048,058	$ 414,175	$ 81,553	$ .59	$ .20
Second	1,085,530	420,360	74,934	.55	.22½
Third	1,013,348	405,415	63,169	.46	.22½
Fourth	1,219,241	485,450	82,078	.60	.22½
Total	$4,366,177	$1,725,400	$301,734	$ 2.20	$ .87½

Eleven-Year Summary of Operations and Related Data.

H. J. Heinz Company and Consolidated Subsidiaries

(dollars in thousands except per share data)	*Fiscal Year*	*1987*	*1986*	*1985*
Summary of Operations:	Sales	$ 4,639,486	$ 4,366,177	$ 4,047,945
	Cost of products sold	2,779,781	2,640,777	2,492,384
	Interest expense	50,978	57,956	52,821
	Provision for income taxes	226,070	197,594	179,325
	Net income	338,506	301,734	265,978
	Net income per common share	2.47	2.20	1.93
Other Data:	Dividends paid:			
	Common	132,278	117,351	105,489
	per share	1.00½	.87½	.77½
	Preferred	177	227	291
	Average number of common shares outstanding	131,665,217	134,125,804	136,102,374
	Capital expenditures	184,730	206,331	158,830
	Depreciation	99,218	85,524	78,833
	Total assets	3,364,197	2,837,364	2,473,774
	Total debt	876,620	540,588	463,413
	Shareholders' equity	1,392,949	1,360,007	1,230,454
	Pretax return on average invested capital (%)	29.5	31.0	30.5
	Return on average shareholders' equity (%)	24.6	23.3	22.6
	Book value per common share	10.81	10.17	8.98
	Price range of common stock:			
	High	50½	44	24½
	Low	38¼	22⅝	16¼

1984	*1983*	*1982*	*1981*	*1980*	*1979*	*1978*	*1977*
$ 3,953,761	$ 3,738,445	$ 3,688,500	$ 3,568,889	$ 2,924,774	$ 2,470,883	$ 2,159,436	$ 1,877,300
2,456,159	2,368,302	2,397,546	2,339,760	1,917,677	1,640,128	1,453,025	1,268,297
46,417	50,354	58,831	59,585	49,010	29,471	18,859	16,332
164,725	136,122	106,145	126,879	59,583	72,164	69,554	72,967
237,530	214,250	192,802	160,827	131,497	108,404	95,277	96,598
1.70	1.51	1.37	1.16	.96	.79	.68	.69
94,210	76,352	65,755	54,841	48,131	41,309	32,143	24,260
.67½	.53⅔	.47	.40	.36	.31	.23⅔	.17¾
387	805	1,220	2,198	3,075	3,138	3,147	3,166
139,662,554	142,050,768	140,322,840	136,755,120	134,329,482	133,979,586	135,657,678	136,459,398
136,971	111,385	140,451	128,604	98,061	111,623	85,441	50,679
70,245	64,196	59,232	56,362	49,259	38,371	30,755	27,743
2,342,970	2,178,693	2,129,570	2,039,578	1,936,736	1,607,181	1,322,406	1,256,052
448,676	384,049	455,672	432,451	502,465	342,918	228,002	220,779
1,120,659	1,139,610	1,029,830	944,668	843,839	755,599	678,877	630,218
29.0	26.6	25.0	25.5	19.6	20.9	20.9	22.6
21.0	19.8	19.5	18.0	16.4	15.1	14.6	16.1
8.19	7.90	7.16	6.58	5.87	5.21	4.65	4.20
19¾	15⅛	11⅛	9¾	7⅜	7⅜	6¾	5¾
13⅜	9¾	8⅜	6⅜	5¾	5⅞	4⅞	4⅜

Independent Accountants' Report

The Shareholders
H. J. Heinz Company:

We have examined the consolidated balance sheet of H. J. Heinz Company and consolidated subsidiaries as of April 29, 1987 and April 30, 1986, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended April 29, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries as of April 29, 1987 and April 30, 1986, and the results of their operations and the changes in their financial position for each of the three years in the period ended April 29, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Coopers & Lybrand

Pittsburgh, Pennsylvania
June 22, 1987

Responsibility for Financial Statements

Management of H. J. Heinz Company is primarily responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent examination of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

World Locations.

H.J. Heinz Company

World Headquarters P.O. Box 57, Pittsburgh, Pennsylvania 15230-0057

Heinz U.S.A. Division. Established 1869. Pittsburgh, Pennsylvania. *David W. Sculley,* President and Chief Executive Officer. Factories: Fremont, Ohio/Gridley, California/Holland, Michigan/Leominster, Massachusetts/Metcalfe, Mississippi/Muscatine, Iowa/New Paltz, New York/Pittsburgh, Pennsylvania/Sibley, Iowa/Stockton, California/Tracy, California/Watsonville, California

Star-Kist Foods, Inc. Acquired 1963. Long Beach, California. *Joseph J. Bogdanovich,* Chairman. *Richard L. Beattie,* President and Chief Executive Officer. Factories: Terminal Island, California/Muscatine, Iowa/Perham, Minnesota/El Paso, Texas/Weirton, West Virginia. Cold Storage/Collection Stations: LePort, Reunion Island/Port Louis, Mauritius/St. Lucia, British West Indies

Star-Kist Caribe, Inc. Acquired 1963. Factory: Mayaguez, Puerto Rico

Star-Kist Samoa, Inc. Acquired 1963. Factory: Pago Pago, American Samoa

Star-Kist International S.A. Acquired 1963. Panama City, Panama. Factory/Collection Stations: Tema, Ghana/Abidjan, Ivory Coast

Star-Kist Canada, Inc. Acquired 1981. Factory: St. Andrews, New Brunswick

Ets. Paul Paulet. Acquired 1981. *Claude Cornu-Thenard,* President. Factories: Douarnenez, Ploemel, Pornic, France

Ore-Ida Foods, Inc. Acquired 1965. Boise, Idaho. *Gerald D. Herrick,* President and Chief Executive Officer. Factories: Ontario, Oregon/Burley, Idaho/Greenville, Michigan/Plover, Wisconsin

Foodways National, Inc. Acquired 1978. Boise, Idaho. *John C. Glerum,* Executive Vice President. Factories: Wethersfield, Connecticut/Massillon, Ohio

Gagliardi Bros., Inc. Acquired 1980. Boise, Idaho. *John C. Glerum,* Executive Vice President. Factory: West Chester, Pennsylvania

The Hubinger Company. Acquired 1975. Keokuk, Iowa. *Bruce H. Brown,* President and Chief Executive Officer. Factory: Keokuk, Iowa

Weight Watchers International, Inc. Acquired 1978. Jericho, New York. *Albert Lippert,* Chairman. *Charles M. Berger,* President and Chief Executive Officer

Cardio-Fitness Corporation. Acquired 1985. New York, New York. *Louis J. Pacini,* Chief Executive Officer. *Jerome Zuckerman,* President

H.J. Heinz Company Australia Ltd. Established 1935. Dandenong, Victoria. *Edward S. Churchill,* President and Chief Executive Officer. Factory: Dandenong, Victoria. Greenseas Division: Eden, New South Wales

The Stanley Wine Company Pty. Ltd. Acquired 1971. Clare, South Australia/Buronga, New South Wales. *B.C. McGee,* Director. Factories: Clare/Buronga

Epicurean Foods and Beverages Pty. Ltd. Formed by merger 1978. Noble Park, Victoria. *T. Ward,* Senior Director-Heinz Brand. Factory: Noble Park, Victoria

Robs Restaurants Pty. Ltd. Acquired 1985. Melbourne, Victoria. *Edward S. Churchill,* Managing Director

H.J. Heinz Company of Canada, Ltd. Established 1909. Toronto, Ontario. *T.D. Smyth,* President and Chief Executive Officer. Factory: Leamington, Ontario

Galco Food Products Ltd. Acquired 1971. Bramalea, Ontario. *T.D. Smyth,* Chairman. Factory: Bramalea, Ontario

Latin American Area Office. Mexico City, Mexico. *Manuel Albarran,* Area Director

Caribbean Restaurants, Inc. Acquired 1976. San Juan, Puerto Rico. *F. Gerardo Larrea,* President

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela. *John M. Werner,* President. Factory: San Joaquin, Carabobo

Heinz Japan Ltd. Established 1961. Tokyo, Japan. *Masahira Ogawa,* President. Factory: Utsunomiya

H.J. Heinz Company Ltd. Established 1905. Hayes, Middlesex, England. *John F. Hinch,* Managing Director. Factories: Harlesden (London)/Kitt Green

Pickerings Foods Ltd. Acquired 1969. Didcot, Oxfordshire, England. *John F. Hinch,* Chairman

W. Darlington and Sons Ltd. Acquired 1969. Rustington, Sussex, England. *John F. Hinch,* Chairman. *John Bodmer,* Vice-Chairman. Farms: Rustington/Horley/Camberley/Poling/Angmering/Woking/Bradford-on-Avon

Country Kitchen Foods Ltd. Acquired 1979. Langford, Avon, England. *John F. Hinch,* Chairman. *John Bodmer,* Vice-Chairman. Farms: Langford/Wrington/Market Harborough/Wilmslow

Somycel S.A. Established 1973. Paris, France. *John Bodmer,* President

Montrose Canned Foods Ltd. Established 1983. Hayes, Middlesex, England. *John F. Hinch,* Chairman

S.A. H.J. Heinz Central Europe N.V. Established 1984. Brussels, Belgium. *Robert M. Kuijpers,* Managing Director. *Pieter den Dulk,* Deputy Managing Director

H.J. Heinz B.V. Acquired 1958. Elst, Gelderland, The Netherlands. *Robert M. Kuijpers,* Managing Director. *Pieter den Dulk,* Deputy Managing Director. Factory: Elst

Johma Holding International B.V. Acquired 1984. Losser, The Netherlands. *Robert M. Kuijpers,* Managing Director. *Pieter den Dulk,* Deputy Managing Director. Factory: Losser

H.J. Heinz Branch Belgium. Established 1984. Brussels, Belgium. *Jean-Claude Jamar,* Legal Representative

Nadler-Werke GmbH. Acquired 1979. Mannheim, West Germany. Management Group: *Bernd M. Rehm,* Chairman. *Jürgen Methe, Karl-August Sabrowski.* Factories: Mannheim/Biblis/Bottrop/Bremerhaven/Leichlinger/Sarstedt

H.J. Heinz S.A.R.L. Established 1979. Paris, France. *Maas van den Berg,* Gerant

H.J. Heinz GmbH. Established 1970. Cologne, West Germany. Management Group: *Robert M. Kuijpers, Pieter den Dulk, Bernd M. Rehm*

IDAL (Industrias de Alimentacao, Lda.). Acquired 1965. Lisbon, Portugal. *Jorge Giralt,* Managing Director. Factory: Benavente

PLADA (Plasmon Dietetici Alimentari S.p.A.). Acquired 1963. Milan, Italy. *Luigi Ribolla,* President and Managing Director. Factories: Milan/Latina/Ozzano Taro

Liven International S.p.A. Acquired 1978. Milan, Italy. *Luigi Ribolla,* Sole Administrator. *Appio Massari,* Director General. Factory: San Stino di Livenza (Venice)

Fratelli Sperlari S.p.A. Acquired 1981. Cremona, Italy. *Luigi Ribolla,* President. *Gianfranco Pantaleoni,* Managing Director. Factory: Cremona

Scaramellini S.p.A. Acquired 1986. Chiavenna, Italy. *Luigi Ribolla,* President. *Lorenzo* and *Franco Moro,* Managing Directors. Factory: Chiavenna

Olivine Industries (Private) Limited. Acquired 1982. Harare, Zimbabwe. *William Margolis,* Chairman. *Douglas N. Dibb,* Managing Director and Chief Executive Officer. Factory: Harare

Heinz-UFE Ltd. Established 1984. Guangzhou, Guangdong Province, People's Republic of China. *Dai Ye Ping,* Chairman. *Wah-hui Chu,* General Manager. Factory: Guangzhou

Juice Drinks. Established 1985. Pittsburgh, Pennsylvania. *Eric Y. Johnson,* President

Frutsi Alimenticia S.A. Established 1986. Sao Paulo, Brazil. *Kenneth G. Jadoff,* Executive Director. Factory: Matao

Seoul-Heinz Ltd. Established 1986. Seoul, South Korea. *Chung Taik Suh,* Chairman. *Dietmar Kluth,* President and Representative Director. Factory: Inchon

Directors and Officers.

H.J. Heinz Company

Board of Directors

Anthony J.F. O'Reilly, Chairman, President and Chief Executive Officer. Director since 1971 (1,3,6)

Joseph J. Bogdanovich, Senior Vice President; Chairman, Star-Kist Foods, Inc. Director since 1963 (1)

Nicholas F. Brady, Chairman and a Managing Director, Dillon, Read & Co., Inc., New York, New York. Director since 1987*

J. Wray Connolly, Senior Vice President. Director since 1985 (1)

Paul I. Corddry, Senior Vice President. Director since 1986 (1)

Richard M. Cyert, President, Carnegie Mellon University, Pittsburgh, Pennsylvania. Director since 1984 (3,4,6)

R. Derek Finlay, Senior Vice President-Corporate Development. Director since 1981 (1,5)

Albert Lippert, Chairman, Weight Watchers International, Inc. Director since 1978 (2,6)

F. James McDonald, President and Chief Operating Officer, General Motors Corporation, Detroit, Michigan. Director since 1977 (2,3,4)

Richard B. Patton, Senior Vice President. Director since 1982 (1)

Herman J. Schmidt, Director, Various Corporations. Director since 1977 (2,3,4,6)

Eleanor Bernert Sheldon, Social Scientist. Director since 1979 (2,4,6)

William P. Snyder III, President, Wilpen Group, Inc., Pittsburgh, Pennsylvania. Director since 1961 (2,3,4)

Karl M. von der Heyden, Senior Vice President-Finance and Chief Financial Officer. Director since 1983 (1,5)

S. Donald Wiley, Senior Vice President, General Counsel and Secretary. Director since 1972 (1,5)

Committees of the Board
(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee
*Elected June 10, 1987

Officers

Anthony J.F. O'Reilly, Chairman, President and Chief Executive Officer

Joseph J. Bogdanovich, Senior Vice President

J. Wray Connolly, Senior Vice President

Paul I. Corddry, Senior Vice President

R. Derek Finlay, Senior Vice President-Corporate Development

George C. Greer, Vice President-Organization Development and Administration

Lee S. Harrow, Vice President-Technical Development

Lawrence J. McCabe, Vice President and Associate General Counsel

Thomas H. McIntosh, Vice President-Corporate Public Relations

Richard B. Patton, Senior Vice President

Paul F. Renne, Vice President and Treasurer

Walter G. Schmid, Vice President-Corporate Planning

Karl M. von der Heyden, Senior Vice President-Finance and Chief Financial Officer

Robert N. White, Vice President and Controller

S. Donald Wiley, Senior Vice President, General Counsel and Secretary

Corporate Data

Transfer Agent, Registrar and Disbursing Agent: Mellon Bank N.A., Pittsburgh, Pennsylvania

Auditors: Coopers & Lybrand, Pittsburgh, Pennsylvania

Stock Listings: New York Stock Exchange. Ticker Symbols: Common: HNZ;
Third Cumulative Preferred: HNZ PR
Pacific Stock Exchange. Ticker Symbol: Common: HNZ

Heinz: A Definition
H.J. Heinz Company is a worldwide provider of processed food products and services. Operating within the food industry, it exhibits a high degree of diversity, shaping its activities in various ways to its various markets. It provides employment for approximately 49,000 people on a regular basis, plus thousands of others during seasonal peaks. These employees work primarily out of headquarters and production facilities spanning the globe. They follow the highest standards in carrying out their duties, which involve the manufacture and sale of processed food products and food ingredients and the dissemination of knowledge about nutrition, health and weight control. The hundreds of items they make reach retail and foodservice markets in scores of countries and territories.

Annual Meeting
The annual meeting of the company's shareholders will be held at 2 p.m. on Wednesday, September 9, 1987, in Pittsburgh. Proxy materials and formal notice of the meeting will be sent to shareholders about August 3, 1987.

Other Information
The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this Form 10-K without charge by writing to Corporate Public Relations Department, H.J. Heinz Company, P.O. Box 57, Pittsburgh, PA 15230-0057.

The company will, upon written request addressed to the Secretary of the company and upon the prepayment of reasonable charges, provide shareholders with a copy of the company's pension plan description, the latest annual report of the administrator, and the trust agreement or contract under which the plan is established, for any of the domestic pension plans of the company.

Investor Information
Securities analysts and investors seeking additional information about the company should contact John M. Mazur, assistant treasurer, at the corporate headquarters address or should call him at (412) 456-6014.

Dividend Reinvestment
The company offers an Automatic Dividend Reinvestment Service for shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan.

For additional information contact:
Mellon Bank N.A.
Post Office Box 444
Pittsburgh, PA 15230
(412) 391-5210

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H.J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania
15230-0057